

# Sprocomm Intelligence Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1401

## GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators,  
Joint Bookrunners and Joint Lead Managers



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## IMPORTANT

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*IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

# Sprocomm Intelligence Limited

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

## GLOBAL OFFERING

<b>Number of Offer Shares</b>	<b>: 250,000,000 Shares</b>
<b>under the Global Offering</b>	<b>(subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Public Offer Shares</b>	<b>: 25,000,000 Shares (subject to reallocation)</b>
<b>Number of International Placing Shares</b>	<b>: 225,000,000 Shares (subject to reallocation and the Over-allotment Option)</b>
<b>Offer Price</b>	<b>: Not more than HK\$0.6 per Offer Share and expected to be not less than HK\$0.5 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)</b>
<b>Nominal value</b>	<b>: HK\$0.01 per Share</b>
<b>Stock code</b>	<b>: 1401</b>

### Sole Sponsor



### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed “Documents delivered to the Registrar of Companies” in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The final Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Tuesday, 5 November 2019 and in any event, not later than Monday, 11 November 2019. The Offer Price will not be more than HK\$0.6 and is currently expected to be not less than HK\$0.5. If, for any reason, the final Offer Price is not agreed by Monday, 11 November 2019 between the Joint Global Coordinators (on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds for termination arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus. Should the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) terminate their obligations under the Hong Kong Underwriting Agreement, the Global Offering will not proceed and will lapse.

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## EXPECTED TIMETABLE

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Date <sup>(1)</sup>

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from . . . . . 9:00 a.m. on  
Wednesday, 30 October 2019

Latest time to complete electronic applications under the **HK eIPO White Form** service through one of the below ways <sup>(2)</sup>

(1) the designated website [www.hkeipo.hk](http://www.hkeipo.hk)

(2) the **IPO App**, which can be downloaded by searching “**Tricor IPO App**” in App Store or Google Play or downloaded at [www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or [www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp) . . . . . 11:30 a.m. on

Monday, 4 November 2019

Application lists of the Hong Kong Public Offering open <sup>(3)</sup> . . . . . 11:45 a.m. on  
Monday, 4 November 2019

Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC <sup>(4)</sup> . . . . . 12:00 noon on

Monday, 4 November 2019

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s). . . . . 12:00 noon on

Monday, 4 November 2019

Application lists of the Hong Kong Public Offering close <sup>(3)</sup> . . . . . 12:00 noon on  
Monday, 4 November 2019

Expected Price Determination Date <sup>(5)</sup> . . . . . Tuesday, 5 November 2019

Announcement of the Offer Price, the levels of indication of interest in the International Placing, the level of applications in respect of the Hong Kong Public Offering and basis of allocation under the Hong Kong Public Offering to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.sprocomm.com](http://www.sprocomm.com) <sup>(6)</sup> on or before . . . . . Tuesday, 12 November 2019

Results of allocations in the Hong Kong Public Offering (with successful applicants’ identification document numbers, where appropriate) to be available through a variety of channels as described in “How to apply for the Hong Kong Public Offer Shares — 11. Publication of results” from . . . . . Tuesday, 12 November 2019

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## EXPECTED TIMETABLE

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Date <sup>(1)</sup>

Results of allocations in the Hong Kong Public Offering to be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) or at “Allotment Result” function in the **IPO App** with a “search by ID” function on . . . . . Tuesday, 12 November 2019

Despatch/collection of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(7)</sup> . . . . . Tuesday, 12 November 2019

Despatch/collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly successful (in the event that the final Offer Price is less than initial price per Hong Kong Public Offer Share payable on application) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before <sup>(8)</sup> . . . . . Tuesday, 12 November 2019

Dealings in the Shares on the Stock Exchange to commence on . . . . . Wednesday, 13 November 2019

*Notes:*

- (1) All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, are set out in “Structure and conditions of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 4 November 2019, the application lists will not open and close on that day. Please see “How to apply for the Hong Kong Public Offer Shares” — “10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this prospectus. If the application lists do not open and close on Monday, 4 November 2019, the dates mentioned in “Expected timetable” may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply by giving **electronic application instructions** to HKSCC should see “How to apply for the Hong Kong Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.

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## EXPECTED TIMETABLE

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- (5) The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Tuesday, 5 November 2019 and in any event, not later than Monday, 11 November 2019. If, for any reason, the final Offer Price is not agreed by Monday, 11 November 2019 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.
- (6) None of the websites or any of the information contained on those websites form part of this prospectus.
- (7) Applicants who apply for 1,000,000 Hong Kong Public Offer Shares or more that are eligible to collect share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 November 2019 or any other date as notified by us in the newspapers as the date of despatch of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong branch share registrar, Tricor Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms may not collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant applications at the applicants' own risk. Further information is set out in "How to apply for the Hong Kong Public Offer Shares" in this prospectus.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in "How to apply for the Hong Kong Public Offer Shares" in this prospectus.

**You should read carefully the sections headed "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Public Offer Shares" in this prospectus for details relating to the structure and conditions of the Global Offering and how to apply for Hong Kong Public Offer Shares.**

**Share certificates are expected to be issued on Tuesday, 12 November 2019 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respect and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.*

*We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, any of the Underwriters, any of our or their respective directors or any other persons or parties involved in the Global Offering.*

*Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.*

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## SUMMARY

*This summary aims at giving you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in “Definitions” and “Glossary” in this prospectus.*

### OVERVIEW

We are an ODM mobile phone supplier based in the PRC targeting emerging markets. According to the CIC Report, we ranked the 5th amongst all ODM mobile phone suppliers in the PRC with 3.3% market share in terms of unit shipments in 2018. Also according to the CIC Report, we had market share of 1.1% of China’s total mobile phone unit shipments in 2018.

We are primarily engaged in R&D, designing, manufacturing and sale of mobile phones and PCBAs for mobile phones on ODM basis to markets covering more than 15 countries worldwide, with strategic focus on India and other emerging markets which have growing demands and high population. Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in India, Thailand, China, other Asian countries and other parts of the world. The table below sets out the breakdown of our revenue by shipment destinations during the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>Emerging Asia</b>								
India	1,041,746	48.0	1,519,280	52.6	1,744,915	59.3	210,566	28.3
Thailand	663,621	30.6	409,545	14.2	62,796	2.1	—	—
Pakistan	111,823	5.1	201,342	7.0	188,752	6.4	37,423	5.0
Bangladesh	111,682	5.1	156,691	5.4	192,900	6.6	25,308	3.4
The PRC	110,520	5.1	309,727	10.7	388,606	13.2	289,259	38.9
Vietnam	10,803	0.5	5,630	0.2	—	—	—	—
Sub-total:	2,050,195	94.4	2,602,215	90.1	2,577,969	87.6	562,556	75.6
<b>Other regions</b>								
Algeria	—	—	3,604	0.1	210,280	7.1	156,309	21.0
Dubai	21,670	1.0	70,467	2.4	—	—	586	0.1
Russia and Ukraine	23,486	1.1	51,738	1.8	86,102	2.9	—	—
Others (Note)	76,516	3.5	161,634	5.6	69,373	2.4	24,852	3.3
Sub-total:	121,672	5.6	287,443	9.9	365,755	12.4	181,747	24.4
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

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

To the best information and knowledge of our Directors and based on the CIC Report, it is a market characteristics for a mobile phone ODM player to record thin profit margin. For each of FY2016, FY2017, FY2018 and 4M2019, our net profit margin was 2.0%, 1.1%, 1.5%, 1.9%, respectively, which were within the industry range.



## SUMMARY

### PRODUCTS AND PRODUCTION

During the Track Record Period, we primarily offered to our customers: (i) smartphones equipped with complete operating systems, processors, large storages, front-facing and rear-facing cameras and third-party apps; (ii) feature phones with voice calling and text messaging functionality, in addition to basic multimedia and internet capabilities; (iii) PCBAs for mobile phones sold as stand-alone products; and (iv) IoT related products including PCBAs or IoT modules for smart locks and automatic electricity meter readers. We generally price our products on cost-plus basis with consideration to product model, market price, market condition, production cost and our relationship with customers. The table below sets out the breakdown of our revenue by product types during the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Revenue RMB'000	Percentage of total revenue %	Revenue RMB'000	Percentage of total revenue %	Revenue RMB'000	Percentage of total revenue %	Revenue RMB'000	Percentage of total revenue %
<b>Mobile phones<sup>(1)</sup></b>								
— Smartphones	584,722	26.9	1,559,760	54.0	2,073,294	70.4	556,264	74.7
— Feature phones	758,899	34.9	676,009	23.4	584,482	19.9	135,463	18.2
<b>Sub-total:</b>	<b>1,343,621</b>	<b>61.8</b>	<b>2,235,769</b>	<b>77.4</b>	<b>2,657,776</b>	<b>90.3</b>	<b>691,727</b>	<b>92.9</b>
<b>PCBAs</b>	748,658	34.5	428,654	14.8	148,895	5.1	4,887	0.7
<b>IoT related products</b>	—	—	140,443	4.9	66,045	2.2	18,799	2.5
<b>Others<sup>(2)</sup></b>	79,588	3.7	84,792	2.9	71,008	2.4	28,891	3.9
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

Notes:

- (1) As the request of our customers, some mobile phone products are delivered in the form of component packs (semi knock-down (SKDs) for mobile phones which include hardware components such as PCBAs, display modules, camera modules) that are assembled and packaged by our customers after being imported to their country(ies), as they consider the importation of finished electronic devices attracts higher taxes than those for components in the relevant country(ies).
- (2) Others mainly include revenue from the sales of mobile device components used for after-sales services and the provision of R&D and technical services for mobile phones, PCBAs and cloud related products.

Below is the breakdown of our revenue, sales volume and ASP of mobile phones by mobile communication standards during the Track Record Period:

	FY2016			FY2017			FY2018			4M2019						
	% of total revenue		Sales	% of total revenue		Sales	% of total revenue		Sales	% of total revenue		Sales				
	Revenue generated RMB'000	ASP RMB	Revenue generated RMB'000	ASP RMB	Revenue generated RMB'000	ASP RMB	Revenue generated RMB'000	ASP RMB	Revenue generated RMB'000	ASP RMB	Revenue generated RMB'000	ASP RMB				
2G	279,314	20.8	4,412	63	520,935	23.3	9,392	55	562,294	21.2	12,772	44	135,463	19.6	3,451	39
3G	975,194	72.6	6,390	153	970,716	43.4	5,062	192	726,042	27.3	3,403	213	127,754	18.5	586	218
4G	89,113	6.6	358	249	744,118	33.3	2,237	333	1,369,440	51.5	3,936	348	428,510	61.9	1,147	374

Note: Sales of each of the 3G and 4G smartphones and 2G, 3G and 4G feature phones include both fully-assembled mobile phones and components pack sales.

## SUMMARY

The following table sets forth the gross profit and gross profit margin by product categories during the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
Mobile phones								
Smartphones	49,052	8.4	132,105	8.5	195,558	9.4	51,693	9.3
Feature phones	42,800	5.6	39,053	5.8	33,250	5.7	8,012	5.9
PCBAs	61,344	8.2	34,081	8.0	11,102	7.5	333	6.8
IoT related products	—	—	21,496	15.3	9,106	13.8	2,501	13.3
Others	<u>12,441</u>	15.6	<u>13,928</u>	16.4	<u>14,181</u>	20.0	<u>5,460</u>	18.9
Total	<u>165,637</u>	7.6	<u>240,663</u>	8.3	<u>263,197</u>	8.9	<u>67,999</u>	9.1

The following table sets forth the gross profit and gross profit margin by geographical regions during the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
<b>Emerging Asia</b>								
India	81,288	7.8	125,838	8.3	151,485	8.7	14,893	7.1
Thailand	41,592	6.3	28,085	6.9	4,145	6.6	—	—
Pakistan	9,714	8.7	19,983	9.9	16,170	8.6	2,336	6.2
Bangladesh	6,548	5.9	6,853	4.4	9,893	5.1	1,334	5.3
The PRC	14,744	13.3	32,159	10.4	38,806	10.0	28,296	9.8
Vietnam	<u>811</u>	7.5	<u>606</u>	10.8	<u>—</u>	—	<u>—</u>	—
Sub-total:	154,697	7.5	213,524	8.2	220,499	8.6	46,859	8.3
<b>Other regions</b>								
Algeria	—	—	515	14.3	31,009	14.7	19,539	12.5
Dubai	2,283	10.5	6,610	9.4	—	—	38	6.5
Russia and Ukraine	2,131	9.1	3,490	6.7	4,478	5.2	—	—
Others	<u>6,526</u>	8.5	<u>16,524</u>	10.2	<u>7,211</u>	10.4	<u>1,563</u>	6.3
Sub-total:	10,940	9.0	27,139	9.4	42,698	11.7	21,140	11.6
<b>Total</b>	<u>165,637</u>	7.6	<u>240,663</u>	8.3	<u>263,197</u>	8.9	<u>67,999</u>	9.1

Please see “Financial Information” in this prospectus for a detailed discussion on gross profit by product categories and geographical regions.

During the Track Record Period, we operate two production bases which are our Shenzhen Plant that is responsible for the mobile phone assembly and our Luzhou Plant that is equipped with four SMT lines for the production of PCBAs and commenced its production in April 2018. For detailed production capacity and utilisation rates, please see “Business — Production — Production capacity and utilisation” for further details.

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## SUMMARY

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### MAJOR CUSTOMERS

Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in South Asia, Southeast Asia, China and other parts of Asia, Europe, North America and Africa. As of 30 April 2019, we have maintained more than five years of business relationship with majority of our top five customers during the Track Record Period. The revenue attributed to our largest customer amounted to RMB654.1 million, RMB771.3 million, RMB714.2 million and RMB174.8 million for each of FY2016, FY2017, FY2018 and 4M2019, which accounted for 30.1%, 26.7%, 24.3% and 23.5% of our total revenue for the corresponding periods, respectively. During the Track Record Period, sales to our five largest customers accounted for 82.7%, 77.5%, 62.8% and 72.6% of our total revenue for each of FY2016, FY2017, FY2018 and 4M2019, respectively. In the corresponding periods, our revenue attributed to our customers in India represents 48.0%, 52.6%, 59.3% and 28.3% of our total revenue.

Our Directors consider that the customer concentration is contributed by our ability to maintain a stable relationship with our major customers and our strategical focus on India and other emerging markets, which have growing demands and high population. Our two largest customers in India are top local mobile phone brands. According to the CIC report, the low smartphone penetration rate in India has been attracting many brands to expand their businesses in India. Xiaomi built its own factory in India and OPPO and VIVO saw remarkable expansion in the offline market by celebrity endorsements and competition sponsorships. Therefore, the market share of the local Indian mobile phone brands has been eroded by the Chinese brands. Our revenue contribution from India declined significantly in 4M2019 due to the aforesaid increasing fierce competition in India. In order to reduce our reliance on India market, we successfully implemented our sales diversification strategy and recorded a significant increase in revenue from Algeria and the PRC. We believe that our business model is sustainable despite such customer and market concentration because (i) India is still a vast and fast growing market; (ii) our one-stop vertically integrated ODM services serve as a competitive strength for broadening our customer base and geographical coverage; and (iii) we have been expanding our product coverage to new electronic products where our PCBAs can be applied. Please see “Risk factors” for relevant risks involved.

### RAW MATERIALS AND MAJOR SUPPLIERS

The major raw materials and components we purchased for manufacturing our products include electrical and electronic components such as PCBAs, display modules, camera modules and mobile chips (such as memory and CPUs), etc. Cost of raw materials and components is the largest portion of our cost of sales, accounting for 94.3%, 94.1%, 94.1% and 96.5% of our total cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively.

As at 30 April 2019, we have maintained business relationship with the majority of our top five suppliers for more than three years. During the Track Record Period, the purchases from our largest supplier amounted to RMB326.0 million, RMB321.8 million, RMB289.3 million and RMB59.9 million for each of FY2016, FY2017, FY2018 and 4M2019, representing 17.1%, 11.9%, 11.6% and 9.9% of our total purchases for the corresponding periods respectively. During the Track Record Period, purchases from our five largest suppliers amounted to RMB868.9 million, RMB1,113.5 million, RMB958.0 million and RMB209.0 million for each of FY2016, FY2017, FY2018 and 4M2019, representing 45.5%, 41.2%, 38.3% and 34.5% of our total purchases for the corresponding periods, respectively. Please see “Business — Raw materials and suppliers” for details.

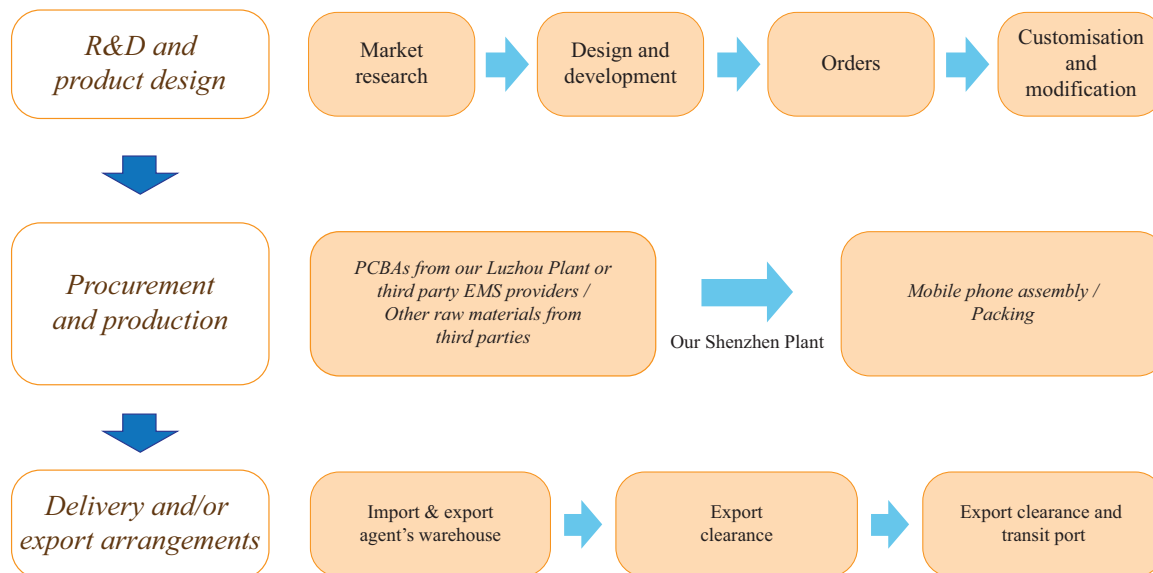
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## SUMMARY

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### BUSINESS MODEL

The following diagram depicts our workflow in the process of R&D, designing, manufacturing and sale of mobile phones and PCBAs for mobile phones:



Please see “Business — Our business model” for details.

### RESEARCH, DEVELOPMENT AND DESIGN

We have a dedicated R&D team consisting of more than 280 staff led by Mr. Li Hongxing, director of our product R&D department, who has over 10 years of relevant experience in the mobile communication industry. We are now able to design mobile phone for different systems of 2G, 3G and 4G, mainly including GSM, W-CDMA and LTE, etc. We can also carry out circuit board design and software development for our mobile phones and conduct relevant testings. During the Track Record Period, we developed over 500 mobile phone models (including PCBAs for mobile phones) and over 10 models of IoT related products meeting the needs of various customers, and the total research and development expenditures amounted to RMB78.8 million, RMB102.8 million, RMB105.4 million and RMB25.7 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively, which accounted for 3.6%, 3.6%, 3.6% and 3.5% of our total revenue during the corresponding periods. The significant increase in research and development expenses for FY2017 was related to (i) the development of new mobile phone models, PCBAs for smartphones, smart locks and smart home devices; (ii) enhancement of the functions of mobile phones (including but not limited to battery life, waterproof performance, camera’s image quality and the implementation of health monitoring functions into mobile phones); (iii) the improvement of the mobile phone appearance and trim down of the size and weight of mobile phones; (iv) the development of artificial intelligence; and (v) the development of dual-lens camera. Please see “Business — Research, development and design” for details.

### COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths have contributed to our business growth and will continue to drive our success:

- we are a top ten ODM mobile phone supplier in the PRC targeting emerging markets;
- we continue expanding our customer base with stable relationship with major customers;
- we provide one-stop vertically integrated ODM services under quality management systems;
- we have strong R&D and adaptive design capabilities; and
- we have an experienced, stable and dedicated management team

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## SUMMARY

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### BUSINESS STRATEGIES

We strive to attain growth by maintaining our Group as a top mobile phone supplier with strong R&D capability targeting emerging markets and expanding our product portfolio to diversify our revenue drivers, through the following strategies:

- diversification in emerging markets;
- to further strengthen our R&D capabilities to enrich our product offering;
- to expand our production capacity by setting up new SMT lines and employing more labour; and
- to upgrade our ERP system to further enhance our management standards

### CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Leap Elite and Beyond Innovation will effectively hold as to approximately 37.0% and 30.5% of the total issued share capital of the Company, respectively. Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li's Family Trust established by himself. Accordingly, Mr. Li as the trustee and settlor of a discretionary trust are deemed to be interested in the Shares held by Leap Elite pursuant to the SFO. Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong's Family Trust established by himself. Accordingly, Mr. Xiong as the trustee and settlor of a discretionary trust are deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO. As a result, Leap Elite, Mr. Li, Mr. Xiong and Beyond Innovation are considered as our Controlling Shareholders after the Global Offering. Please see "History, development and Reorganisation" and "Relationship with Controlling Shareholders" for details.

### PRE-IPO INVESTMENT

On 8 August 2018, Shenzhen Sprocomm and JZ Capital entered into the Pre-IPO Capital Increase Agreement pursuant to which Shenzhen Sprocomm shall increase its registered capital from RMB50 million to RMB55.5556 million and JZ Capital shall pay the increased registered capital in the sum of RMB5.5556 million at a consideration of RMB8 million and was fully and unconditionally settled in cash (which was funded by its own funding) on 3 September 2018. Immediately after the above capital increase, JZ Capital owned 10% equity interest in Shenzhen Sprocomm. Please see "History, development and Reorganisation — The Pre-IPO Investment" for details.

### SUMMARY OF FINANCIAL INFORMATION

#### Key information from consolidated statements of profit or loss and other comprehensive income

The following table summarises the consolidated statement of profit or loss and other comprehensive income during the Track Record Period, details of which (other than the adjusted profit for the year) are set out in the "Accountants' Report" in Appendix I to this prospectus.

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>4M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2,171,867	2,889,658	2,943,724	744,303
Gross profit	165,637	240,663	263,197	67,999
Profit before tax	44,451	32,144	54,658	17,522
Profit for the year/period	42,695	32,079	43,951	14,037
Total comprehensive income for the year/ period	<u>46,893</u>	<u>20,677</u>	<u>42,919</u>	<u>14,470</u>

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## SUMMARY

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### Non-HKFRS measures

Adjusted profit for the year/period	FY2016	FY2017	FY2018	4M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year/period	42,695	32,079	43,951	14,037
Listing expenses	<u>—</u>	<u>—</u>	<u>5,899</u>	<u>7,176</u>
Adjusted profit for the year/period (Note)	<u>42,695</u>	<u>32,079</u>	<u>49,850</u>	<u>21,213</u>

*Note:* Adjusted profit refers to profit excluding listing expenses which is a non-HKFRS measure, to supplement our consolidated financial information which are presented in accordance with HKFRS. We believe that this non-HKFRS measure provides additional information to investors and others in understanding and evaluating our results of operations in comparing financial results of our operations across accounting periods and to those of our peer companies.

Our revenue was recorded on an increasing trend from RMB2,171.9 million for FY2016 to RMB2,943.7 million for FY2018, representing a CAGR of 16.4% throughout the Track Record Period, primarily reflected by (i) upsurge on sales of our mobile phones by RMB1,314.2 million from FY2016 to FY2018; (ii) remarkable increase of revenue generated from Emerging Asia, in particular from India, by an aggregate amount of RMB528.0 million from FY2016 to FY2018; and (iii) more 4G mobile phones with higher selling prices than 2G and 3G mobile phones offered to our customers due to our improving R&D and design capabilities and the increasing demand for smartphones from Emerging Asia.

Our gross profit increased by 45.4% from RMB165.6 million for FY2016 to RMB240.7 million for FY2017, which was driven by (i) the revenue growth of RMB717.8 million mainly arising from the increase in sales of mobile phones to India, the PRC and other emerging markets; and (ii) the improvement in gross profit margin attributed to the sales of IoT related product and the provision of other services that had higher gross profit margins than our mobile phones. Our gross profit increased by 9.4% from RMB240.7 million for FY2017 to RMB263.2 million for FY2018, which was driven by (i) the revenue growth of RMB54.0 million mainly arising from the increase in sales of mobile phones to India and Algeria; and (ii) the slight increase in gross profit margin attributed to the sales of smartphones with higher specifications and selling price to our customer in Algeria.

Our profit for the year decreased by RMB10.6 million or 24.8% from RMB42.7 million for FY2016 to RMB32.1 million for FY2017, primarily attributable to (i) increase of selling expenses by RMB28.1 million along with the increase in our sales; (ii) increase of administrative and other expenses by RMB26.4 million due to exchange loss on our export sales denominated in US dollars arising from the depreciation of US dollars against RMB; and (iii) increase of research and development expenses by RMB24.0 million due to more resources devoted to our research development projects, which was partially offset by the significant increase of our gross profit by RMB75.1 million. Our profit for the year increased by RMB11.9 million or 37.1% from RMB32.1 million for FY2017 to RMB44.0 million for FY2018, primarily attributable to (i) our increased sales to India and Algeria; and (ii) slight increase of research and development expenses by RMB2.6 million.

Our adjusted profit for the year increased by 55.5% from RMB32.1 million for FY2017 to RMB49.9 million for FY2018. The increase was primarily attributable to the revenue growth mainly driven by the increase in our sales to India and Algeria and slight increase in gross profit margin of our new customer in Algeria, during the Track Record Period.



## SUMMARY

### Key information from consolidated statements of financial position

The following table sets out our consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	27,750	86,915	136,976	146,131
Current assets	649,238	855,587	1,053,441	1,126,441
Current liabilities	610,347	801,358	966,912	1,030,185
Net current assets	38,891	54,229	86,529	96,256
Total equity	66,641	112,943	163,862	178,332
Non-current liabilities	—	28,201	59,643	64,055

Our net current assets increased from RMB38.9 million as at 31 December 2016 to RMB54.2 million as at 31 December 2017. This was primarily due to (i) our increasing sales performance, which increased our inventory level by RMB216.2 million and our financial assets at FVTPL by RMB31.4 million, which were pledged to banks to secure the issuance of bank acceptance bills to our suppliers for the settlement of our outstanding purchase amounts; and (ii) the decrease in our contract liabilities of RMB36.2 million; but partially offset by the increase in our trade and bills payables of RMB256.9 million as at 31 December 2017.

Our net current assets increased from RMB54.2 million as at 31 December 2017 to RMB86.5 million as at 31 December 2018, which was primarily due to the increase in our financial assets at FVTPL by RMB216.1 million, but partially offset by the increase in our trade and bills payables by RMB158.6 million as at 31 December 2018.

Our net current assets position increased from RMB86.5 million as at 31 December 2018 to RMB96.3 million as at 30 April 2019, mainly due to (i) the increase in our trade and bills receivables of RMB107.0 million; and (ii) the decrease in our contract liabilities of RMB77.1 million, and partially offset by the increase in our current portion of borrowings of RMB128.5 million.

### Key information from consolidated statements of cash flow

The following table summarises, for the periods indicated, our consolidated statements of cash flows:

	FY2016	FY2017	FY2018	4M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before working capital changes	42,288	38,749	59,540	17,303
Net cash (used in)/generated from operating activities	(130,955)	69,545	343,403	(77,761)
Net cash used in investing activities	(37,282)	(119,563)	(284,752)	(51,419)
Net cash generated from/(used in) financing activities	<u>252,544</u>	<u>31,697</u>	<u>(73,709)</u>	<u>122,025</u>
Net increase/(decrease) in cash and cash equivalents	84,307	(18,321)	(15,058)	(7,156)
Cash and cash equivalents at beginning of year/period	3,326	91,826	68,830	56,118
Effect of foreign exchange rate changes, net	<u>4,193</u>	<u>(4,675)</u>	<u>2,346</u>	<u>837</u>
Cash and cash equivalents at end of the year/period	<u><u>91,826</u></u>	<u><u>68,830</u></u>	<u><u>56,118</u></u>	<u><u>49,799</u></u>

## SUMMARY

We had net cash used in operating activities of RMB131.0 million in FY2016, which was attributable to the adjustment of our product mix in FY2016 to better suit the needs of our customers. We increased the sales proportion of mobile phones and decreased the sales proportion of PCBAs. The change in our product mix increased our sales revenue. On the other hand, it also increased our trade and bills receivables as at 31 December 2016 and our cash outflows from operating activities, as customers required us to grant a longer credit period for the sales of mobile phones. Along with our increasing sales during the Track Record Period, we managed to record net cash inflows from operating activities in FY2017 and FY2018.

For 4M2019, we had net cash used in operating activities of RMB77.8 million due to (i) increase in trade and bills receivables of RMB102.4 million resulting from the increased sales in April 2019 and these sales were still within the credit period we granted to the relevant customers; and (ii) the decrease in contract liabilities of RMB77.3 million after the delivery of our products to customers during 4M2019. Our management closely monitors our Group's cash inflows and outflows to ensure that our Group has sufficient cash flows to meet our payment obligations, including operating expenses, capital expenditures on property, plant and equipment and the repayment of debts. To improve our Group's negative cash flow from operating activities for 4M2019, our management would (i) actively monitor the recoverability of overdue trade and bills receivables, urge our customers to settle their overdue trade amounts and review the credit terms granted to them. If necessary, we may also request our customers to place an upfront deposit upon the placement of purchase orders. As at 31 August 2019, RMB507.0 million, or 96.7% of the trade and bills receivables outstanding as at 30 April 2019 had been subsequently settled; (ii) carefully manage our inventories to maintain an optimal inventory level that can satisfy the demand from customers and avoid overstocking which would consume our working capital; and (iii) negotiate with our suppliers to accept payment by bank acceptance bills, which allows us more time to settle as compared with bank transfer.

Our net cash flows used in investing activities during the Track Record Period were primarily related to the purchase of property, plant and equipment to set up our Luzhou Plant and the net increase in financial assets at FVTPL, which were pledged to banks to secure the issuance of bank acceptance bills to our suppliers for the settlement of our outstanding purchase amounts. Our net cash flows used in financing activities in FY2018 represented repayment of borrowings and payment of interest.

### Key financial ratios

The following table sets out our key financial ratios as at each of the dates indicated:

	As at 31 December/FY			As at
	2016	2017	2018	30 April/ 4M2019
Gross profit margin (%)	7.6	8.3	8.9	9.1
Net profit margin (%)	2.0	1.1	1.5	1.9
Current ratio (times)	1.1	1.1	1.1	1.1
Quick ratio (times)	0.8	0.6	0.9	1.0
Gearing ratio (%) (Note 1)	368.8	197.1	73.6	147.0
Debt to equity ratio (%)	231.0	136.2	39.4	119.1
Interest coverage (times)	32.8	5.3	4.4	4.4
Return on assets (%)	6.3	3.4	3.7	N/A (Note 2)
Return on equity (%)	64.1	28.4	26.8	N/A (Note 2)

Notes:

- (1) Gearing ratio is calculated by dividing total debt by total equity. Total debt is defined as the sum of borrowings and lease liabilities.
- (2) Return on assets and return on equity are calculated on a full year basis.

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## SUMMARY

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Our overall gross profit margin increased from 7.6% for FY2016 to 8.3% for FY2017, which was primarily attributed to the sales of IoT related product and the provision of other services, which had higher gross profit margins than that of our mobile phones. Our overall gross profit margin slightly increased from 8.3% for FY2017, to 8.9% for FY2018 and to 9.1% for 4M2019, which was primarily due to the sales to the customer in Algeria, which demanded smartphones with higher specifications and the selling price of these smartphones were higher than that of our other product models.

Our net profit margin decreased from 2.0% for FY2016 to 1.1% for FY2017. The decrease was primarily due to the relatively higher selling and administrative and other expenses incurred in FY2017 as compared to those in FY2016, even if our gross profit margin improved from 7.6% for FY2016 to 8.3% for FY2017. Our net profit margin slightly increased from 1.1% for FY2017 to 1.5% for FY2018, mainly attributable to the increase in gross profit margin for the abovementioned reasons, but partially offset by the increase in income tax expenses arising from the recognition of withholding tax on undistributed earnings of a PRC subsidiary of RMB7.8 million for FY2018. Our net profit margin slightly increased to 1.9% for 4M2019, mainly attributable to the increase in gross profit margin as a result of the increased portion of revenue derived from smartphones.

Please see “Financial information” in this prospectus for a detailed discussion and analysis of our financial information.

### LISTING EXPENSES

Listing expenses directly attributable to the issue of new shares are recognised in equity, otherwise they are recognised as administrative and other expenses. The total estimated listing expenses in connection with the Global Offering was HK\$41.5 million, of which HK\$16.0 million will be charged against equity upon successful Listing under relevant accounting standards. For FY2018 and 4M2019, Listing expenses of HK\$6.9 million and HK\$8.4 million were charged to consolidated statement of profit or loss and other comprehensive income, respectively. For the eight months ending 31 December 2019, we estimate that the remaining listing expenses of HK\$10.2 million will be charged to the consolidated statement of profit or loss and other comprehensive income. Our Group’s financial performance and results of operation for the year ending 31 December 2019 will be affected by the estimated expenses in relation to the Listing.

### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our business model has remained unchanged and our revenue and cost structure has remained stable since 30 April 2019. Our revenue for the eight months ended 31 August 2019 remained stable as compared to the corresponding period for 2018. For the eight months ended 31 August 2019, our Group continued to focus our sales to Emerging Asia and Algeria. Although we have sales to the U.S., sales to the U.S. only accounted for RMB0.7 million, RMB3.1 million, RMB69.3 million and nil for each of FY2016, FY2017, FY2018 and 4M2019, respectively, representing less than 0.1%, 0.1%, 2.4% and nil of our total revenue during the corresponding periods, respectively. To the best information and knowledge of the Directors, our Group did not source and need not source components/raw materials from suppliers/manufacturers from the U. S. directly or indirectly, which may be subject to additional tariffs as announced by the Chinese government due to the U.S.-China trade war. Accordingly, our Directors are of the view that our business operations and financial performance would not be affected by the recent trade war between the U.S. and China and the trade restrictions imposed by the U.S. government on a reputable PRC mobile phone brand owner in May 2019. We currently estimate that our results of operations for 2019 will be adversely affected by (i) the listing expenses to be charged as administrative and other expenses to our profit and loss accounts as set out above; and (ii) the total amounts of government subsidies that will be granted to us for 2019, which is dependent on various factors that beyond our control and may be less than that for the year ended 31 December 2018.

Our Directors confirm that, save for the estimated expenses in relation to the Listing discussed above, there had been no material change in our financial or trading position or prospects since 30 April 2019 up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely since 30 April 2019 up to the date of this prospectus.

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## SUMMARY

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### USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$0.55 per Share, being the mid-point of the indicative range of the Offer Price of HK\$0.5 to HK\$0.6 per Share, and assuming the Over-allotment Option is not exercised) will be HK\$96.0 million. Our Directors intend to apply the net proceeds from the Global Offering as follows:

Amounts		% of total amount of the net proceeds	Use of proceeds
HK\$	RMB equivalent		
44.1 million	38.4 million	46.0	● increase of production capacity of PCBA assemblies in our Luzhou Plant
16.1 million	14.0 million	16.8	● strengthening of our R&D capabilities to enrich our product offering on both mobile phone and IoT related products
9.8 million	8.5 million	10.2	● strengthening our sales and marketing force to enhance our market penetration in India, broaden our customer base in emerging markets and to promote IoT related products in China
6.5 million	5.6 million	6.7	● upgrading our computer hardware, software and ERP system to link up product design, costs and budgeting, procurement, production planning, inventory monitoring, quality control and financial reporting functions
10.0 million	8.7 million	10.4	● partial repayment of mortgage loans
9.5 million	8.3 million	9.9	● additional working capital and other general corporate purposes

### REASONS FOR LISTING

Our Directors consider that additional funding from Listing will be beneficial to our Group and enable us: (i) to enhance our corporate profile and recognition; (ii) to better equip ourselves with higher SMT production capacity for PCBAs; (iii) to increase our resources on R&D for rapid and smooth validation of 5G related products; (iv) to have additional funding for our R&D and marketing of our IoT related products; and (v) to apply part of net proceeds from the Global Offering to partially repay our mortgage loans. Please see “Future plans and use of proceeds” for details.

### DIVIDENDS

Dividends may be paid out by ways of cash or by other means we consider appropriate. For FY2017, Shenzhen Sprocomm declared dividends of RMB20.0 million. All the dividends declared during the Track Record Period had been fully settled as at the Latest Practicable Date. Save for the aforesaid dividends, no dividend has been proposed by the companies comprising the Group during Track Record Period and up to the Latest Practicable Date. We do not have a predetermined dividend payout ratio. Payment of any future dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant. The declaration, payment and amount of any future dividends will be subject to our constitutional documents including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

### RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. Our Directors believe the most significant risks relating to our business include (i) we operate in the mobile phone industry characterised by rapid technological changes with short product life cycle, and we may not be able to maintain our revenue growth and any delay by us in

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## SUMMARY

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rolling out new and competitive mobile phones will adversely affect our financial performance; (ii) we may be unable to respond to rapidly changing new trends and customers' preferences for mobile phones in a cost and time efficient manner and our competitiveness will drop; (iii) we have a relatively thin net profit margin and hence are highly sensitive to any unfavorable change in the cost of sales, selling price and sales volume; (iv) we had a concentration of customers during the Track Record Period and any decrease or loss of business from these major customers could adversely and substantially affect our operation and financial conditions; (v) fluctuations in the prices of raw materials may affect our cost of sales and adversely affect our business operations and profitability; (vi) potential relocation of our Shenzhen Plant and suspension of production at our Luzhou Plant due to the title defects and/or non-compliance with the environmental protection and fire protection laws and regulations; (vii) we may not continue to receive similar level of government subsidies, or at all, and we plan to early terminate an investment agreement relating to the operation of an R&D centre in Guizhou and may be required to return subsidies previously received; and (viii) challenges or downturn in economic conditions or political and regulatory uncertainties of emerging markets, in particular, India, may affect the demand for our products which could adversely affect our sales or growth. A detailed discussion of the risk factors is set forth in "Risk factors" in this prospectus, and investors should read the entire section carefully.

### BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, revenue amounting to RMB23.5 million, RMB51.7 million, RMB86.1 million and RMB2.9 million, representing 1.1%, 1.8%, 2.9% and 0.4% of our total revenue in FY2016, FY2017, FY2018 and 4M2019, respectively, was generated from sales of our products to customers located in Russia, Ukraine, and Egypt, each of these countries is subject to targeted sanctions. We are advised by our International Sanctions Legal Advisers that our activities during the Track Record Period do not appear to implicate restrictions under International Sanctions and the associated sanction risk exposure to us and our stakeholders is very low. Please see "Business — Business activities in countries subject to International Sanctions" for further details.

### LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, there were certain non-compliance incidents of our operating subsidiaries in the PRC. These include (i) failure to make social insurance and housing provident fund contributions in full; (ii) commencement of production prior to obtaining the approval of acceptance inspection of the environmental protection facilities and fire protection facilities of our Luzhou Plant; (iii) the electrical circuits at the temporary storage of hazardous materials have not met anti-explosion related requirements under national or industry standards and we were imposed a fine of RMB20,000 for such non-compliance. For incidents (i) and (iii) above, we have rectified the relevant non-compliance incidents. We have enhanced our internal control to avoid the occurrence of similar incidents. For incident (ii) above, our PRC Legal Advisers are of the view that, we have obtained the relevant approvals and there is no risk that we were to be ordered to suspend our production or operation.

Further, there were title defects for the leased properties of our Luzhou Plant, Shenzhen Plant and Guizhou R&D centre. Based on the written confirmations obtained from the relevant competent authorities, our PRC Legal Advisers are of the view that the risk that we are ordered to vacate from the relevant buildings is remote. For details, please see "Business — Properties — Leased properties in the PRC — Defective title of leased properties" in this prospectus.

### OFFER STATISTICS <sup>(1)</sup>

	Based on the maximum Offer Price of HK\$0.6 per Offer Share	Based on the minimum Offer Price of HK\$0.5 per Offer Share
Market capitalisation of our Shares <sup>(2)</sup>	HK\$600 million	HK\$500 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(3)</sup>	HK\$0.31	HK\$0.29

*Note:* Please see Appendix II for notes to the above.



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## DEFINITIONS

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*In this prospectus, the following expressions shall have the meanings set out below unless the context requires otherwise.*

“4M2018”	the four months ended 30 April 2018
“4M2019”	the four months ended 30 April 2019
“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), or where the context so requires, any of such forms as used in the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 18 October 2019, which shall become effective upon Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in “Summary of the constitution of the Company and the Cayman Islands Companies Law — 2. Articles of Association” in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beyond Innovation”	Beyond Innovation Limited (超新有限公司), a BVI business company incorporated in the BVI with limited liability on 4 July 2018 holding 30.5% of the issued share capital of our Company upon completion of the Global Offering (taking no account of any Shares issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme and a Controlling Shareholder, whose issued shares are held by Mr. Xiong as trustee for the benefit of Ms. Yan under the Xiong’s Family Trust)
“Board”	the board of directors of our Company
“business day(s)”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in “Statutory and general information — Further information about our Company — 3. Resolutions in writing of our Shareholders passed on 18 October 2019” in Appendix IV to this prospectus



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## DEFINITIONS

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“Cayman Islands Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant, a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chengdu Sprocomm”	Chengdu Sprocomm Cloud Technology Co., Ltd.* (成都禾苗雲科技有限公司), an enterprise established under the laws of the PRC with limited liability on 2 August 2017, an indirect non-wholly-owned subsidiary of our Company after the Reorganisation
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not apply to Taiwan, Macau Special Administrative Region and Hong Kong
“Chunfen Investment”	Shenzhen Chunfen Investment Advisory Centre (Limited Partnership)* (深圳市春分投資諮詢中心(有限合夥)), a limited partnership established under the laws of the PRC on 18 December 2017 with Mr. Li as the general partner
“CIC”	China Insights Industry Consultancy Limited, a market research consultant who is an Independent Third Party
“CIC Report”	the industry report prepared by CIC on the global mobile phone market
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules

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## DEFINITIONS

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“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Sprocomm Intelligence Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 15 August 2018
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	the controlling shareholder(s) (having the meaning ascribed to it in the Listing Rules) of our Company, which collectively refers to Leap Elite, Mr. Li, Beyond Innovation and Mr. Xiong
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Countries subject to International Sanctions”	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the EU or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets
“Dakin Capital” or “Sole Sponsor”	Dakin Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the sole sponsor to the Global Offering
“Dakin Securities”	Dakin Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 2 (dealing in future contracts) regulated activities under the SFO, being a joint global coordinator, a joint bookrunner and a joint lead manager of the Global Offering

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## DEFINITIONS

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“Deed of Indemnity”	the deed of indemnity dated 18 October 2019 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of the subsidiaries) to provide certain indemnities, particulars of which are set out in the paragraph headed “Other information — 2. Estate duty, tax and other indemnities” in Appendix IV to this prospectus;
“Director(s)” or “our Directors”	the director(s) of our Company
“EIT”	the PRC enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on 16 March 2007, effective from 1 January 2008 and amended on 24 February 2017 and 29 December 2018 and the Regulations for the Implementation of the Enterprise Income Tax 《中華人民共和國企業所得稅法實施條例》, enacted on 6 December 2007, effective from 1 January 2008 by the NPC
“Emerging Asia”	includes China, Bangladesh, Cambodia, India, Indonesia, Malaysia, Myanmar, Pakistan, Philippines, Thailand and Vietnam
“Emerging Asia (excluding China)”	includes Bangladesh, Cambodia, India, Indonesia, Malaysia, Myanmar, Pakistan, Philippines, Thailand and Vietnam
“emerging markets”	for the purpose of this prospectus only, the markets of Emerging Asia, South Africa, Algeria, Russia and other fast-growing developing countries
“EU”	the European Union
“extreme conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“FVTPL”	fair value through profit or loss
“FY2016”, “FY2017” and “FY2018”	the financial years ended 31 December 2016, 2017 and 2018, respectively
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Grace Kirin”	Grace Kirin Limited (俊麟有限公司), a BVI business company incorporated in the BVI with limited liability on 28 June 2018, which is a direct wholly-owned subsidiary of our Company

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## DEFINITIONS

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“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at that time
“Guizhou Mars”	Guizhou Mars Exploration Technology Co., Ltd.* (貴州火星探索科技有限公司), an enterprise established under the laws of the PRC on 29 June 2016, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Guizhou Sprocomm”	Guizhou Sprocomm Telecommunication Technology Co., Ltd.* (貴州禾苗通信科技有限公司), an enterprise established under the laws of the PRC on 8 June 2016, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Head & Shoulders Securities”	Head & Shoulders Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contract) and type 4 (advising on securities) regulated activities under the SFO, being a joint global coordinator, a joint bookrunner and a joint lead manager of the Global Offering
“ <b>HK eIPO White Form</b> ”	the application of Hong Kong Public Offer Shares for issue in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the <b>IPO App</b>
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the <b>IPO App</b>
“HK Sprocomm”	Sprocomm Technologies Co., Ltd. (禾苗通信科技有限公司), a company incorporated under the laws of Hong Kong with limited liability on 15 January 2016, an indirect wholly-owned subsidiary of the Group after the Reorganisation
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Public Offer Shares”	the 25,000,000 new Shares (subject to reallocation) being initially offered by our Company for subscription in the Hong Kong Public Offering, as described under “Structure and conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the issue and offer of the Hong Kong Public Offer Shares for subscription in Hong Kong at the Offer Price (plus brokerage, Stock Exchange trading fee and SFC transaction levy) on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Hong Kong Underwriters”	the Underwriters of the Hong Kong Public Offering, whose names are set out under “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 29 October 2019 relating to the Hong Kong Public Offering, entered into, among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“India Sprocomm”	Sprocomm Technologies India Private Limited, a company incorporated under the laws of India with limited liability on 24 August 2016, an indirect non-wholly owned subsidiary of our Company after the Reorganisation
“International Placing”	the placing of the International Placing Shares at the final Offer Price to professional, institutional and other investors, as described in “Structure and conditions of the Global Offering”

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## DEFINITIONS

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“International Placing Shares”	the 225,000,000 new Shares offered by our Company for subscription under the International Placing, subject to reallocation and the exercise of the Over-allotment Option, as described in “Structure and conditions of the Global Offering”
“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the EU and its member states, United Nations or the Government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions in connection with the Listing
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement expected to be entered into by, among others, our Company, the Joint Global Coordinators and the International Underwriters relating to the International Placing
“IPO App”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>Tricor IPO App</b> ” in App Store or Google Play or downloaded at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>
“Joint Bookrunners”	Dakin Securities, Head & Shoulders Securities and CCB International Capital Limited
“Joint Global Coordinators”	Dakin Securities, Head & Shoulders Securities and CCB International Capital Limited
“Joint Lead Managers”	Dakin Securities, Head & Shoulders Securities and CCB International Capital Limited
“JZ Capital”	JZ Capital Limited, a company incorporated under the laws of Hong Kong with limited liability on 1 November 2017, being a Shareholder holding 7.5% of the issued share capital of our Company upon completion of the Global Offering (taking no account of any Shares issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), which is an Independent Third Party (other than being a Shareholder of the Company)



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## DEFINITIONS

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“Latest Practicable Date”	20 October 2019, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Leap Elite”	Leap Elite Limited (立堅有限公司), a BVI business company incorporated in the BVI with limited liability on 11 April 2018 holding 37.0% of the issued share capital of our Company upon completion of the Global Offering (taking no account of any Shares issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme) and a Controlling Shareholder, whose issued shares are held by Mr. Li as a trustee for the benefit of Ms. Sui under the Li’s Family Trust
“Li’s Family Trust”	an irrevocable discretionary trust set up by Mr. Li pursuant to the Li’s Family Trust Deed for the benefit of Ms. Sui and her family members
“Li’s Family Trust Deed”	a trust deed dated 20 November 2018 (as amended from time to time), pursuant to which Mr. Li as settlor established an irrevocable trust for the benefit of Ms. Sui and her family members with him appointed as trustee
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares on the Main Board first commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Luzhou Plant”	our production base located at No. 13 Building, Area A, Phase 1 of the Standardised Plants, No. 19, 5th Section of Jiugu Avenue, Jiangyang District, Luzhou, Sichuan* (四川省瀘州市江陽區酒谷大道五段19號標準化廠房一期A區13#棟) with an aggregate GFA of 19,871 sq.m. which is currently equipped with four SMT lines for our PCBA production and operated by Luzhou Sipukang
“Luzhou Sipukang”	Luzhou Sipukang Technology Co., Ltd.* (瀘州思普康科技有限公司), an enterprise established under the laws of the PRC on 1 September 2017 with limited liability, an indirect wholly-owned subsidiary of the Group after the Reorganisation

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## DEFINITIONS

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“M&A Rules”	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on 8 August 2006 and amended by MOFCOM on 22 June 2009
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted on 18 October 2019, as amended from time to time, a summary of which is set out in “Summary of the constitution of the Company and the Cayman Islands Companies Law — 1. Memorandum of Association” in Appendix III to this prospectus
“MOFCOM”	the PRC Ministry of Commerce (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation, as appropriate to the context
“Mr. Li”	Mr. Li Chengjun (李承軍), our founder, executive Director, chief executive officer, chairman of the Board and a Controlling Shareholder
“Mr. Xiong”	Mr. Xiong Bin (熊彬), our founder, executive Director, vice-chairman of the Board and a Controlling Shareholder
“Ms. Sui”	Ms. Sui Rongmei (隋榮梅), spouse of Mr. Li
“Ms. Yan”	Ms. Yan Xue (鄢雪), spouse of Mr. Xiong
“Nomination Committee”	the nomination committee of the Board
“NPC”	The PRC National People’s Congress (中華人民共和國全國人民代表大會)
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed pursuant to the Global Offering
“Offer Shares”	the Hong Kong Public Offer Shares and the International Placing Shares

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## DEFINITIONS

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“Over-allotment Option”	the option expected to be granted by our Company under the International Underwriting Agreement to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 37,500,000 additional new Shares at the Offer Price, representing 15% of the initial number of Offer Shares offered under the Global Offering, at the Offer Price to cover the over-allocations (if any) in the International Placing, as described in “Structure and conditions of the Global Offering” in this prospectus
“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended, supplemented and otherwise modified from time to time
“PRC Government” or “Chinese Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context require, any of them
“PRC Legal Advisers”	Allbright Law Offices (Shenzhen), our legal advisers as to the PRC laws
“Pre-IPO Capital Increase Agreement”	the capital increase agreement (增資協議) dated 8 August 2018 entered into between Shenzhen Sprocomm and JZ Capital pursuant to which Shenzhen Sprocomm shall increase its registered capital from RMB50 million to RMB55.556 million and JZ Capital shall pay the increased registered capital of RMB5.5556 million of Shenzhen Sprocomm for a consideration of RMB8 million
“Pre-IPO Investment”	the investment by JZ Capital in our Group under the Pre-IPO Capital Increase Agreement, details of which are set out in “History, development and Reorganisation — The Pre-IPO Investment” in this prospectus
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on March 3, 2014 by the Companies Ordinance and Companies (Winding Up and Miscellaneous Provisions) Ordinance
“Price Determination Date”	the date, expected to be on or around Tuesday, 5 November 2019 but in any event not later than Monday, 11 November 2019, on which the Offer Price will be determined for the purposes of the Global Offering
“Regulation S”	Regulation S under the US Securities Act

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## DEFINITIONS

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“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the pre-listing reorganisation of our Group, further details of which are described under “History, development and Reorganisation — Reorganisation” in this prospectus and “Statutory and general information — Further information about our Company — 4. Group Reorganisation” in Appendix IV to this prospectus
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular No. 37”	the PRC Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE on 4 July 2014
“SAIC”	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sanctioned Person(s)”	certain person(s) and entity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the EU, the United Nations or Australia
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SDN List”	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Sprocomm”	Shanghai Sprocomm Telecommunication Technology Co., Ltd.* (上海禾苗通信科技有限公司), an enterprise established under the laws of the PRC on 24 November 2009 with limited liability, an indirect wholly-owned subsidiary of the Group after the Reorganisation

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## DEFINITIONS

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“Share Option Scheme”	the share option scheme conditionally adopted by our Company, further details of which are described in “Statutory and general information — Other information — 1. Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Share(s)
“Shenzhen Plant”	our production base located at Area A of 3rd Floor and 6th Floor, Tower 2, No. 7 Industrial Area, Yulv Community, Guangming, Shenzhen* (深圳市光明區玉律社區第七工業區第二棟3樓A區及6樓) with an aggregate GFA of 13,560 sq.m. which is currently equipped with 10 mobile phone assembly lines for the general assembly and packaging of our products and operated by Shenzhen Sprocomm Guangming Branch
“Shenzhen Sprocomm”	Shenzhen Sprocomm Telecommunication Technology Co., Ltd.* (深圳禾苗通信科技有限公司), an enterprise established under the laws of the PRC on 16 September 2009 with limited liability, an indirect wholly-owned subsidiary of the Group after the Reorganisation
“Sprocomm Intelligence HK”	Sprocomm Intelligence (HK) Holdings Limited (禾苗智能控股有限公司), a company incorporated in Hong Kong with limited liability on 27 August 2018, which is our indirect wholly-owned subsidiary
“sq.m.”	square metre(s)
“Stabilising Manager”	Head & Shoulders Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Leap Elite and the Stabilising Manager on or about the same date as the International Underwriting Agreement
“Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, as approved by the SFC and as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Tax Advisers”	SHINEWING Tax and Business Advisory Limited, independent tax advisers we engaged on certain tax issues
“Track Record Period”	the period comprising FY2016, FY2017, FY2018 and 4M2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD” or “US dollars”	the lawful currency for the time being of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“VAT”	value-added tax
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the applicant’s own name
“Xiazhi Investment”	Shenzhen Xiazhi Investment Advisory Centre (Limited Partnership)* (深圳市夏至投資諮詢中心(有限合夥)), a limited partnership established under the laws of the PRC on 20 December 2017 with Mr. Li as the general partner
“Xiong’s Family Trust”	an irrevocable discretionary trust set up by Mr. Xiong pursuant to the Xiong’s Family Trust Deed for the benefit of Ms. Yan and her family members
“Xiong’s Family Trust Deed”	a trust deed dated 20 November 2018 (as amended from time to time), pursuant to which Mr. Xiong as settlor established an irrevocable trust for the benefit of Ms. Yan and her family members with him appointed as trustee
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be deposited directly into CCASS
“%”	per cent

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## DEFINITIONS

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*In this prospectus, the English names of PRC nationals, entities, departments, facilities, certificates, titles, etc. marked “\*” are translations of their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

*Unless expressly stated or otherwise required by the context, all data contained in this prospectus are as at the Latest Practicable Date.*

*Unless otherwise specified, all references to any shareholding in our Company in this prospectus assume no exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*



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## GLOSSARY

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*This glossary contains certain definitions and technical terms in this prospectus which relate to our business and the industries and sectors that we operate in. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.*

“2G”	acronym for second generation, a digital mobile communications standard allowing for voice calls and limited data transmission
“3G”	acronym for third generation, a mobile communications standard that allows mobile phones, computers, and other portable electronic devices to access the Internet wirelessly
“4G”	acronym for fourth generation, a mobile communications standard intended to replace 3G, allowing wireless Internet access at a much higher speed
“5G”	acronym for fifth generation, a mobile communications standard, which aims to increase data communication speeds at least ten times compared to its predecessor, 4G
“AOI”	acronym for automated optical inspection
“AQL”	acronym for acceptable quality limit
“ASP”	acronym for average selling price
“CAGR”	represents the year-over-year growth rate of a value over a specified period of time, taking into account the effects of compounding
“CCC”	acronym for China Compulsory Certification(s), which is a mandatory product certification system for certain domestically manufactured and imported products in the PRC
“CPU”	acronym for central processing unit
“EMS”	acronym for electronic manufacturing service
“EMS provider(s)”	manufacturer(s) or subcontractor(s) who offer EMS services, and for the purpose of this prospectus, it refers to such service providers who process and assemble products for our Group
“feature phone”	a mobile phone that incorporates features such as the ability to access the Internet and store and play music but lacks the advanced functionality of a smartphone

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## GLOSSARY

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“FOB”	acronym for free on board, which means that the seller pays for transportation of goods to the port of shipment as well as loading costs, the buyers pays cost of marine freight transport, insurance, unloading and transportation for the arrival port to the final destination; and passing of risks occurs when the goods are loaded on board at the port of shipment
“GSM”	acronym for Global System for Mobile Communications, a standard to describe protocols for second generation (2G) digital cellular networks used by mobile phones
“hardware”	mechanical devices, such as the central processing unit, monitor, modem, printers, disk drives that comprise a computer system and are capable of performing communication, computation and control functions
“IC”	acronym for integrated chip
“IMEI”	acronym for International Mobile Station Equipment Identity, a number which uniquely identifies an individual mobile station
“IoT”	acronym for internet of things, which is the inter-networking of physical devices, smart devices, and other items embedded with electronics, software, sensors, and network connectivity which enable these objects to collect and exchange data
“IQC”	acronym for incoming material quality control
“ISO”	acronym for International Organisation for Standardisation, a series of international standards, including quality management and quality assurance standards published by the International Certification Services Co., Ltd., a non-government organisation for assessing the quality system of business organisations
“ISO 14001”	one of the guidelines of ISO which is applicable to any organisation that wishes to establish, implement, maintain and improved an environmental management system
“ISO 9001”	a standard under ISO used for certification or registration and contractual purposes by organisations seeking recognition of their quality management which specifies the requirement for quality management systems for any organisation that needs to demonstrate its ability to consistently provide products that meet its requisite standards

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## GLOSSARY

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“LCD”	liquid crystal display, a technology used for flat panel display, which is an electronic display device that operates by applying a varying electronic voltage to a layer of light-polarising liquid crystal trapped in cells between two transparent polarising sheets, thereby inducing changes in its optical properties
“LTE”	a 4G mobile communications standard, an acronym for Long-Term Evolution, is a standard for wireless communication of high-speed data for mobile phones and data terminals
“NB-IoT”	a low power wide area network radio technology standard enabling a wide range of new IoT devices and services
“ODM”	acronym for original design manufacturer, a business model that designs and manufactures a product which is specified and eventually branded by another company for sale
“OEM”	acronym for original equipment manufacturer who manufactures products or components that are purchased by another company and retailed under that purchasing company’s brand name
“PCB”	acronym for printed circuit board, used to mechanically support and electrically connect electronic components using conductive pathways, tracks or signal traces etched from copper sheets laminated onto a non-conductive substrate
“PCBA”	acronym for printed circuit board assembly
“R&D”	research and development
“roadmap”	a plan or strategy with specific technology solutions intended to achieve a particular goal
“SKD(s)”	acronym for semi knock-down, refers to component pack(s) of mobile phone(s) which include hardware components such as display modules, camera modules, audio which are readily available to be assembled into mobile phone(s)
“smartphone”	a mobile device which combines the function of a mobile phone and a conventional personal computer with functionality beyond making phone calls and sending text messages. It runs on an operating system which provides configuration options for the user to install and use various third-party applications (APPs)

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## GLOSSARY

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“SMT”	acronym for surface mount technology, a process by which electronic components are mounted directly on both sides of a PCB, increasing board capacity, facilitating product miniaturisation and enabling advanced automation of production
“software”	computer program that instructs the operation of computer hardware

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, “shall”, “will” and the negative of these terms and other similar expressions, as they relate to us. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources, which reflect our management’s current view with respect to future events based on the beliefs of our management and assumptions made by and information currently available to our management, and are subject to certain risks, uncertainties and factors, including the risk factors described in “Risk factors” in this prospectus. Potential investors of the Offer Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. In light of these, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Group’s plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in “Risk factors” in this prospectus. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

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## RISK FACTORS

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*You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial part of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**We operate in the mobile phone industry characterised by rapid technological changes with short product life cycle. We may not be able to maintain our revenue growth and any delay by us in rolling out new and competitive mobile phones will adversely affect our financial performance**

The mobile phone industry is characterised by rapid technological developments, frequent new product introductions and ever-changing industry and regulatory standards. Future technological developments in the mobile phone and mobile telecommunication industries may reduce or inhibit the market acceptance of our existing and future mobile phones.

2G feature phones was one of our major products during the Track Record Period, whereas its demand may decrease due to technology changes. Our sales volume of 2G feature phones increased significantly over the Track Record Period, and we recorded 4.4 million units, 9.4 million units, 12.8 million units and 3.5 million units of 2G feature phone sales in FY2016, FY2017, FY2018 and 4M2019, respectively, which contributed to 20.8%, 23.3%, 21.2% and 19.6% of our total revenue for the corresponding periods. If sales of our 2G feature phones decreases, whereas the increase in our smartphone sales orders (such as 3G and 4G smartphones) cannot outweigh the decrease in 2G feature phone sales, our production capacity may be less utilised and our financial performance may be adversely affected.

Our success depends substantially on our ability to enhance our technologies and develop and introduce new phones which anticipates changing market needs and technologies. We have devoted and will continue to devote significant resources to the research and development of new phones and enhancements. We cannot assure that delay in rolling out new mobile phones will not happen in the future. Further, our competitors may from time to time launch new mobile phones with innovative features which may replace or shorten our mobile phone's life cycles and end-users may delay their decisions to buy our phones. If we cannot launch our new mobile phones in time and/or our new mobile phones cannot satisfy the changing market needs and/or our competitors are able to develop new mobile phones with better designs and features as compared with our products, we may not be able to maintain our revenue growth and our financial performance may be adversely affected.

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## RISK FACTORS

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**We may be unable to respond to rapidly changing new trends and customers' preferences for mobile phones in a cost and time efficient manner and our competitiveness will drop**

We need to respond to changes in customers' preferences for mobile phones and in turn the preferences of their end-users as well as their demand for features. The competitiveness of our mobile phones depends on our ability to introduce, on a cost and time efficient manner, new, innovative and appealing mobile phones, enhance existing mobile phones with added features and respond to new or anticipate future needs among end-users.

We need to identify and understand the key market trends and user segments and address the ever-changing needs in different user segments timely and proactively. In order to do so, we must obtain and evaluate feedbacks from end-users via our customers from time to time. If we are unable to collect or evaluate the feedbacks and develop cost effective and appealing mobile phones, we may not be able to attract new or retain existing customers and our competitiveness will drop.

**We have a relatively thin net profit margin and hence are highly sensitive to any unfavorable change in the cost of sales, selling price and sales volume**

We have a relatively thin net profit margin. For each of FY2016, FY2017, FY2018 and 4M2019, our net profit margin was of 2.0%, 1.1%, 1.5% and 1.9%, respectively. The selling price of each of our products depends primarily on the complexity of the product design, the size of an order, the delivery schedule set out by customers, the costs of raw materials and the subcontracting cost. Our Group's pricing strategies may not be effective in maintaining its financial performance including the profit margin and profitability. Any unfavorable changes of the above and the market conditions could have a material adverse effect on our Group's financial performance.

In addition, we recognised a significant amount of one-off gains and income (the "**One-off Gains**") during the Track Record Period, which includes government subsidies and amortisation of government subsidies amounted to RMB7.0 million, RMB9.1 million, RMB21.6 million and RMB10.4 million and gain from fair value changes of financial assets at FVTPL amounted to RMB0.5 million, RMB0.8 million, RMB5.3 million and RMB3.1 million for FY2016, FY2017, FY2018 and 4M2019, respectively. The One-off Gains are non-recurring in nature and depends on various factors beyond our control. Excluding the One-off Gains, our net profit margin during the Track Record Period was 1.6%, 0.8%, 0.6% and 0.1%, respectively. We are not able to assure you that we may continue to record same amount of such gains and income in the future and our profit margin may be adversely affected.



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## RISK FACTORS

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**We had a concentration of customers during the Track Record Period and any decrease or loss of business from these major customers could adversely and substantially affect our operation and financial conditions**

For each of FY2016, FY2017, FY2018 and 4M2019, our five largest customers accounted for 82.7%, 77.5%, 62.8% and 72.6% of our total revenue, respectively. The major markets of products are concentrated in the Emerging Asia, particularly in India. Our sales to customers in India represent 48.0%, 52.6%, 59.3% and 28.3% of our total revenue for each of FY2016, FY2017, FY2018 and 4M2019. These major customers may continue to account for high proportion of our revenue in the future.

Although we will strive to diversify our customer base and geographical coverage in other countries such as China and North Africa, we would still maintain stable relationship with our major customers and expect to continue to derive a significant amount of revenue from our major customers.

There is no assurance that any of our major customers will continue to engage us as they do currently or the revenue generated from them can be maintained or increased in the future, nor there is any assurance that our strategy to diversify our customer base would succeed. If there is a reduction or cessation of purchase orders from these major customers for whatever reasons, such as failure to maintain their existing market shares, and we are unable to obtain purchase orders of a comparable size and terms in substitution or our plan to diversify or expand our customer base does not succeed, our business, financial conditions, results of operation and gross profit may be materially and adversely affected.

Further, we neither have long-term purchase nor exclusive contracts with these major customers as they would place orders to buy a specific model for a certain quantity from time to time. If our competitors succeeded in marketing mobile phones to them by, for example, offering more favorable terms or more appealing models, or our mobile phones turn out to be less popular than expected, we may lose our customers and may not be able to find new customers who will purchase a similar quantity of mobile phones from us and thus our profit will drop.

**Challenges and uncertainties of emerging markets, in particular, India, may affect the demand for our products which could adversely affect our sales or growth**

The major markets of our products are concentrated in the Emerging Asia, particularly in India. During the Track Record Period, our total revenue attributable to the Emerging Asia amounted to RMB2,050.2 million, RMB2,602.2 million, RMB2,578.0 million and RMB562.6 million which accounted for 94.4%, 90.1%, 87.6% and 75.6% of our total revenue in FY2016, FY2017, FY2018 and 4M2019, respectively, while our revenue from India represent 48.0%, 52.6%, 59.3% and 28.3% of our total revenue during the corresponding periods, respectively. These emerging markets are characterised with challenges or downturn in economic conditions as well as political and regulatory uncertainties and could seriously hinder our sales and growth.

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## RISK FACTORS

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For instance, the increasing fierce competition in India may adversely affect our business. According to the CIC Report, low-end and mid-end mobile phones which are more affordable are dominant in mobile phone market in India. In the past, top mobile phone suppliers are mainly local brands which offer products generally at affordable prices. Our two largest customers in India are local mobile phone brands who demand low-cost mobile services from us for their offering of products at competitive prices. According to the CIC report, the low smartphone penetration rate in India has been attracting many brands to expand their businesses in India. Xiaomi built its own factory in India and OPPO and VIVO saw remarkable expansion in the offline market by celebrity endorsements and competition sponsorships. Therefore, the market share of the local Indian mobile phone brands has been eroded by the Chinese brands. Given our thin net profit margin, there was not much room for further decrease in our prices to further enhance our or our customers' competitiveness in India market. Our revenue derived from sales to India decreased from RMB446.9 million for 4M2018 to RMB210.6 million for 4M2019, and our gross profit margin for India market decreased from 9.3% to 7.1% in 4M2018 to 4M2019. If we or our customers are not able to encounter the more challenging competitive landscape in India, sales orders from our customers in India may continue to decrease and our business and financial performance may be adversely affected.

Mobile phones are consumer products, the demand for which is highly dependent on the economic conditions of our markets. If any of our major markets suffer from economic turmoils or depreciation of local currencies against US dollars (in which most of our sales in the emerging countries are denominated), the demand for our products would drop and our business would be adversely affected.

We also need to exercise extra caution when dealing with customers in countries under unstable political conditions, such as India and Pakistan and cannot assure you that our business would not be adversely affected when encountering political instability in countries where our customers situate.

Due to our international business operations, we are subject to laws and regulations of various countries or territories in which we conduct our business. The legal, political and business environments affecting our business are evolving, inconsistent across various jurisdictions and often lack clarity or predictability, which increases our compliance costs and legal risks. Subsequent legislations, regulations, litigations, court rulings or other events could expose us to increased costs, liabilities and risks of reputational damage. Further, uncertainties in the business and legal environments in foreign countries to which our business activities are related may affect our business and limit our ability to enforce our rights.

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## RISK FACTORS

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**We may not continue to receive similar level of government subsidies, or at all. In particular, we plan to early terminate an investment agreement relating to the operation of an R&D centre in Guizhou and may be required to return subsidies previously received**

During the Track Record Period, we received government subsidies for (i) our continuous commitment to increase our production volume and enhance our R&D capability; and (ii) the financing of our capital expenditure on plant and machinery, leasehold improvement and recruitment of workers. For FY2016, FY2017, FY2018 and 4M2019, our government subsidies recognised as other income were RMB7.0 million, RMB9.1 million, RMB16.8 million and RMB8.2 million, respectively. Amortisation of government subsidies (recognised as other income) were nil, nil, RMB4.9 million and RMB2.2 million for the same periods, respectively.

Our eligibility for government subsidies is dependent on a variety of factors, including the conditions we have to meet, the relevant government policies, the availability of funding at different granting authorities, the granting authorities' assessments on our R&D capability and the completing inspection of relevant assets by the related granting authorities. There can be no assurances that we will continue to receive similar levels of government subsidies, or at all. If we no longer receive government subsidies or the same amount of government subsidies, we receive decreases significantly, results of our operations may be adversely affected.

In particular, as at June 2019 we had not been able to meet the relevant conditions under an investment agreement we entered into with Guizhou Xinpu Economic Development Zone Management Committee\* (貴州新蒲經濟開發區管理委員會) (the “**Guizhou Xinpu Management Committee**”) in 2016, pursuant to which we are entitled to use a property located at Guizhou as an R&D centre free of rental for development of IoT and mobile phone related products with certain subsidies for renovation, purchase of equipment and wages, provided that we can fulfil various conditions including (i) to recruit at least 50 talents and to apply at least one patent in the first year upon commencement of the agreement; (ii) to recruit at least 100 talents and to apply at least three patents by the end of the second year upon commencement of the agreement; (iii) to recruit at least 300 talents and to apply for at six patents by the end of the third year upon commencement of the agreement (i.e. June 2019).

In order to promote local economic development and attract investment, Guizhou Xinpu Management Committee issued a confirmation letter on 10 July 2019, which confirmed that they agree to extend the three years term to six years until 30 June 2022 and currently do not require us to return the subsidies that we received and compensate any losses that it may incur. Both parties are currently negotiating on the conditions we shall fulfil by 30 June 2022 and will enter into a second supplemental agreement once the conditions are agreed. We plan to surrender the relevant property to the Guizhou Xinpu Management Committee in June 2022 and early terminate the relevant investment agreement if we cannot meet the relevant conditions by then. Under such circumstances, there is a risk that we may be required to return the total subsidies received, which amounted to RMB12.4 million as at 30 April 2019, and compensate any losses incurred to the Guizhou Xinpu Management Committee. For the total subsidies of RMB12.4 million received as at 30 April 2019, we have recorded such amounts as our liabilities (accruals and other payables) in our consolidated

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## RISK FACTORS

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statement of financial position as at 31 December 2018 and 30 April 2019. We currently have about 40 staff at the R&D centre in Guizhou and plan to reassign them and relocate some of the devices to our R&D centres in Shanghai or Chengdu. Our Directors estimate the relocation will be completed within one week and the relevant cost would be in the range from RMB102,850 to RMB140,250. The R&D costs attributable to our R&D centre in Guizhou amounted to RMB2.5 million, RMB8.8 million, RMB5.9 million and RMB1.4 million for FY2016, FY2017, FY2018 and 4M2019, representing 3.2%, 8.6%, 5.6% and 5.4% of our total R&D costs during the corresponding periods. For further details, please see “Business — Properties — Leased properties in the PRC” in this prospectus.

**We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the EU, the United Nations, Australia and other relevant sanctions authorities.**

The United States and other jurisdictions or organisations, including the EU, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we made sales to Russia, Ukraine and Egypt generating revenue of RMB23.5 million, RMB51.7 million, RMB86.1 million and RMB2.9 million, respectively, representing 1.1%, 1.8%, 2.9% and 0.4% of our total revenue in FY2016, FY2017, FY2018 and 4M2019, respectively. Each of Russia, Ukraine and Egypt was subject to targeted sanctions during the Track Record Period. Russia in particular has been subject to a variety of additional sanctions measures since its actions in Crimea were deemed to be illegal by many Western governments and governmental organisations. The United States has implemented additional sanctions measures against Russian individuals, entities, and organisations during each of 2018 and 2019. Further, the region of Crimea, which is located in between Russia and Ukraine, is subject to comprehensive international sanctions, and while we did not conduct any business transactions in Crimea during the Track Record Period, we sold our products to customers in each of Russia and Ukraine. If we were to sell or deliver products to Crimea, it could result in our being found to have violated U.S. or other international sanctions. Please see “Business — Business activities in countries subject to International Sanctions” in this prospectus for further details.

We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the United States, the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. In addition, we have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the United States, the EU, the United Nations or Australia. We will also disclose on the

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## RISK FACTORS

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respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would expose our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the EU, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group. For details of our business operations in the Countries subject to International Sanctions and our undertakings to the Stock Exchange and its related group companies, please see “Business — Business activities in countries subject to International Sanctions” in this prospectus.

**If we fail to maintain an effective quality control system, including quality control on the raw materials and components supplied, our manufacturing process of our own plants or our EMS providers, our business may be adversely affected**

Mobile phone is assembled with many components and parts, and malfunction of any of the components may result in breakdowns or malfunction of the mobile device. We produce and assemble mobile phones, PCBAs in our plants. Depending on our production capacity and the product delivery time requested by our customers, we may also rely on EMS providers to process and assemble our products. We adopt strict quality control measures which includes: (1) inspecting the incoming raw material and components; (2) conduct various tests throughout the production process on both semi-finished products and final products in our plants; (3) entering into quality assurance agreements with our EMS providers which require our EMS providers to perform quality checks and inspections on the raw materials and components and throughout the whole production process; and (4) sending our quality engineers to the sites of our EMS providers to conduct sample testings and monitor the production process.

If we fail to maintain our effective quality control, we may fail to detect problematic components, parts or defective finished products. We may replace these defective components or reassemble the products, it may be costly and time consuming. It may then result in increased production costs, delays in delivery of products, delays in our collection of payments as well as decrease in future sales orders.

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## RISK FACTORS

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Further, if any accident arising from malfunction of our finished products occurs, the end user may claim against our overseas customers who may in turn claim against us and/or reduce placing orders with us.

**We face risks associated with potential relocation of our Shenzhen Plant and suspension of production at our Luzhou Plant due to the title defects and/or non-compliance with the environmental protection and fire protection laws and regulations**

The landlord of our Shenzhen Plant has not yet obtained the collectively-owned land use right certificate, construction land planning permit, construction work planning permit, construction work commencement permit, and building ownership certificate for the property leased to us. There is a risk that we may be ordered to vacate from the relevant buildings. In the unlikely event of such circumstances, we plan to outsource all our mobile phone assembly work to our EMS providers or relocate our Shenzhen Plant. For details, please see “Business — Properties — Leased properties in the PRC — Defective title of leased properties” in this prospectus.

In April 2018, our Luzhou Plant commenced production prior to obtaining the approvals of acceptance inspection of the environmental protection facilities and fire protection facilities, respectively. Hence, according to the relevant laws and regulations, the relevant authorities may order us to suspend production or operation in certain situations. For details, please see “Business — Legal compliance”.

If we are required to relocate our Shenzhen Plant and/or suspend our production activities at our Luzhou Plant, our production activities may be disrupted. Any disruption to our production activities may affect our ability to satisfy our customers’ purchase orders in a timely manner or at all and may materially and adversely affect our reputation, business operation and financial condition.

**Unexpected disruptions to our production facilities or production process may materially and adversely affect our business operations**

Our business operations are heavily dependent on smooth operations of our Shenzhen Plant and Luzhou Plant, where all our production machinery and equipment are situated. These production machinery and equipment are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortage, strike, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our Shenzhen Plant and Luzhou Plant happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner or at all. As a result, our relationship with our customers could be adversely affected due to our failure and we may also be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial conditions and results of operations.



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## RISK FACTORS

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**We may not be able to comply with the national or industrial standards in relation to production safety and are exposed to the risk of being imposed administrative punishments by relevant authorities and/or production safety accidents.**

During the Track Record Period, we failed to comply with certain national or industrial standards in relation to production safety and was imposed a fine of RMB20,000 for such non-compliance incident. For details, please see “Business — Legal compliance” in this prospectus.

Although we have rectified such non-compliance and put into place various internal control measures to ensure the strict compliance with the production safety standards and laws and regulations, we cannot assure you such non-compliance will not occur in the future which may result in administrative punishments by relevant authorities and/or production safety accidents.

**We rely on third party EMS providers to process and assemble some of our products to meet our orders and rely completely on third party agencies for transportation of our products to our customers, the process of which are beyond our control**

We produce and assemble our mobile phones and PCBAs for mobile phone in our Luzhou Plant and Shenzhen Plant, while we also outsource part of the PCBA and mobile phone assembly work to certain EMS providers during the Track Record Period to enhance our capability to meet our customers’ needs in a timely manner. For each of FY2016, FY2017, FY2018 and 4M2019, our subcontracting costs were RMB53.5 million, RMB77.4 million, RMB82.7 million and RMB8.2 million, respectively, which represents 2.7%, 2.9%, 3.1% and 1.2% of our total cost of sales.

We may rely on our EMS providers to produce part of our products in the future and we do not have direct control on the production process carried out by our EMS providers. If our EMS providers perform insufficient quality controls or we fail to conduct our quality controls on EMS providers and result in any product defect, our reputation and profit may be adversely affected.

Further, we also rely entirely on our third party agencies to conduct customs clearance procedures and deliver products who rely on a combination of land, sea and air transport. If these procedures or transportation means are being disrupted by strikes, weather, lock-outs or other events, it could interrupt our supply to our customers and could substantially impair our business operations. Although we have insurance policies covering losses incurred during transits of the products, we may need to bear the relevant risks according to the terms agreed with our customers and we may suffer losses if the insurance coverage is insufficient.

**Fluctuations in the prices of raw materials and components may affect our cost of sales and adversely affect our business operations and profitability**

Cost of raw materials and components constitutes the major part of our cost of sales. In each of the FY2016, FY2017, FY2018 and 4M2019, our cost of raw materials and components was RMB1,892.8 million, RMB2,493.0 million, RMB2,520.5 million and RMB652.3 million, respectively, accounting for 94.3%, 94.1%, 94.1% and 96.5% of our total cost of sales, respectively. Furthermore, strong procurement ability of suitable raw materials and components



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## RISK FACTORS

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to meet our customers' standard of the end products is critical for our business operation. Most of our customers rely on our procurement service and request us to select and provide components for the production of mobile phones and PCBAs at a fixed price and we are generally responsible for all the cost. We have to bear the risk of cost fluctuations and may not be able to shift such risk to our customers. Hence, any increase in the price of the raw materials and components will directly affect our profitability if we fail to accurately estimate the cost of the raw materials and components to fulfil the purchase order when we fixed the price with our customers. Please see "Financial information — Key factors affecting our results of operations — Cost of raw materials and components" in this prospectus for a detailed sensitivity analysis.

Since we do not enter into long-term procurement agreement with pre-determined prices with our suppliers, there is no assurance that our suppliers will not significantly increase the prices of raw materials or components in the future, in particular when the market prices of or the market demand for such raw materials or components increase. There is also no assurance that we will be able to pass the increase in the cost of raw materials or components to our customers in a timely manner or at all to avoid adverse impacts on our profitability.

### **Net cash outflow from operating activities may materially and adversely affect our business, financial condition and results of operation**

We recorded net cash used in operating activities of RMB131.0 million for FY2016 mainly due to the increase in trade and bills receivables of RMB225.3 million, which was attributable to the adjustment of our product mix in FY2016 to better suit the needs of our customers. We increased the sales proportion of mobile phones and decreased the sales proportion of PCBAs. The change in our product mix increased our sales revenue. On the other hand, it also increased our trade and bills receivables as at 31 December 2016 and our cash outflows from operating activities, as customers required us to grant a longer credit period for the sales of mobile phones. Along with our increasing sales during the Track Record Period, we managed to record net cash inflows from operating activities in FY2017 and FY2018. For details, please see "Financial Information — Liquidity and capital resources — Cash flows" in this prospectus. We had net cash used in operating activities of RMB77.8 million for 4M2019 mainly due to (i) increase in trade and bills receivables of RMB102.4 million resulting from the increased sales in April 2019 and these sales were still within the credit period we granted to the relevant customers; and (ii) the decrease in contract liabilities of RMB77.3 million after the delivery of products to customers during 4M2019.

We cannot assure you that we will not experience net cash outflows from operating activities in the future. Net cash outflow from operating activities could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. If we do not have sufficient cash to fund our future capital requirements, settle our trade payables and outstanding debt obligations when they become due, we may need to significantly increase our external borrowings. If adequate funds are not available from external borrowings, on satisfactory terms or at all, we may be forced to delay or curtail our business expansion plans. As a result, our business, financial conditions and results of operations may be materially and adversely affected.

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## RISK FACTORS

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### **We may be subject to credit risk with respect to our trade receivables**

We are exposed to credit risk in relation to our trade and bill receivables. As at 31 December 2016, 2017 and 2018 and 30 April 2019, our trade and bills receivables amounted to RMB274.6 million, RMB244.7 million, RMB417.1 million and RMB524.1 million, respectively. Our average trade and bills receivables turnover days increased over the Track Record Period, and for FY2016, FY2017, FY2018 and 4M2019 were 26.3 days, 32.8 days, 41.0 days and 75.9 days, respectively. As at 31 August 2019, RMB507.0 million, or 96.7% of our trade and bills receivables outstanding as at 30 April 2019 had been subsequently settled. For details, please see “Financial Information — Description on selected items from our consolidated statements of financial position — Trade and bills receivables”.

We generally grant credit period ranging from 30 to 90 days to our customers, in particular for those customers who we would like to build up long-term relationship with. However, there is no assurance that we may be able to receive payment for our products on time. Although we closely monitor the payment record of our customers and regularly review the credit terms we granted to them, we cannot assure you that our customers will pay us in full for their purchases in a timely manner or at all in the future. In such circumstances, our operating cash flows, financial condition and results of operations may be materially and adversely affected.

### **Our results of operations, financial condition and prospects may be adversely affected by fair value changes in our financial assets at FVTPL, and our financial assets are also subject to credit, counterparty and concentration risks**

During the Track Record Period, we purchased structured deposits and wealth management products issued by licensed commercial banks. The structured deposits carried interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period. The underlying investment portfolio of the wealth management products included but not limited to treasury bonds, central bank bills, financial bonds, money market funds, inter-bank lending, debentures and foreign currencies. As at 31 December 2016, 2017 and 2018 and 30 April 2019, our financial assets at FVTPL amounted to RMB48.0 million, RMB79.4 million, RMB295.5 million and RMB316.2 million, respectively.

The performance of structured deposits and wealth management products are linked to the performance of the underlying assets of structured deposits and underlying investment portfolio of wealth management products. Change in fair value of financial assets at FVTPL are recorded in our consolidated income statements, and therefore directly affects our results of operations. During the Track Record Period, the gain arising from change in fair value of financial assets at FVTPL amounted to RMB0.5 million, RMB0.8 million, RMB5.3 million and RMB3.1 million, respectively. We did not incur any fair value losses for financial assets at FVTPL during the Track Record Period. In the event that the fair value of our structured deposits and wealth management products drops below our investment costs in the future, we will incur fair value losses and our results of operations, financial condition and prospects may be adversely affected.

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## RISK FACTORS

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We are also subject to credit risks that any of our counterparties (e.g. the banks that issued structure deposits to us) may not perform their contractual obligations, such as in the event that any such counterparty declares bankruptcy or becomes insolvent. Any material non-performance of our counterparties with respect to the wealth management products and structure deposits we invested in could materially and adversely affect our financial position and cash flow. In addition, our financial assets at FVTPL are concentrated on a few PRC banks. As at 30 April 2019, our financial assets at FVTPL were constituted of structure deposits amounted to RMB152.6 million and RMB163.6 million, issued by two commercial banks, respectively. As such, our exposure to counterparty risks is relatively concentrated and if there is any material adverse change in the financial conditions of any of the banks, our financial conditions may be adversely affected.

**There may be sudden shortage or defect in supply of certain raw materials and components which may lead to delay in fulfilment of orders or unavailability of mobile models developed**

Some of the raw materials and components (such as mobile chips, one of the main components of our mobile phones) are manufactured mainly by a few suppliers worldwide.

We generally purchase these raw materials and components directly from electronic component suppliers, distributors or trading companies with whom we have long-term relationships. Although we check the availability of the raw materials or components when we provide quotations to our customers, there is a few months' gap between the timing of our quotations and the placing of orders for these raw materials and components. If there is a sudden shortage or delay in supply of the relevant raw materials or components, it could delay the fulfilment of our orders. If the relevant raw materials or components are no longer available, we may fail to supply certain mobile models we have developed, and additional R&D resources may be needed to modify certain specifications of the mobile phones to use alternative raw materials or components of other brands. We may find it difficult, costly and time-consuming to find alternative supply of these materials and components, or to change mobile phone design to use alternative raw materials and components. We cannot assure that we could source a sufficient quantity of high quality raw materials and components used in our products at reasonable costs. Our supply to customers will be disrupted and our customers may request for discounts and our profit will be reduced and reputation will be adversely affected.

**We may be subject to possible product returns and product liability claims which may reduce our profitability**

We only accept product returns if there is manufacture or design defect or the product specification deviates from our customers' specifications. Our mobile phones may have quality issues or undetected defects or errors or a mismatch of customer with the actual specifications in particular when new models or versions are launched. These may be due to product design, software, components or manufacture. For products having issues other than manufacture or design defect, we provide on-site service to all our customers, but if we failed to rectify the issue on site, our customers may return the products to us. For products with manufacture or design defect or failing to meet customers' specifications, our customers may also return the products to us. We will incur additional labour costs and raw material costs to fix the products with quality problem, which may adversely affect our profitability.

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## RISK FACTORS

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Further, if our mobile phones fail to meet the required standard or are alleged to cause health hazards to end-users, our customers may need to recall these products. We may also be subject to product liability claims. If any product liability claims are brought against our customers and regardless of whether our customers have merits, we would need to spend a significant amount of money defending these claims. As a result, we may need to bear significant legal costs and pay substantial damages.

To the best information and knowledge of our Directors, during the Track Record Period, we had only one product quality incident reported by a customer in Bangladesh in 2016, which was due to the defective screens provided by our supplier. The total amount of the products involved was RMB5.0 million, which amounted to 0.2% of our revenue in FY2016. We sent our engineers to the relevant customer's site and replaced the defective components and bore RMB1.5 million of the cost therein. We have been in good business relationship with this customer who continued to place orders with us after such incident was settled.

However, we cannot assure you that we may not face similar product quality incidents or product recalls in the future. Furthermore, we currently do not have insurance coverage to protect us from these claims in our market worldwide. Even if we have insurance coverage, we may still incur significant costs in excess of our available insurance coverage and product returns and liability claims could significantly reduce our profitability.

### **We maintain inventories of raw materials and components and our inventories may become obsolete**

Our Group typically places orders for raw materials and components on an order-by-order basis though we keep certain amount of inventories and components, work-in-progress and finished products where we consider necessary as our sales volume increases. Our inventories may become obsolete due to rapid technological change in our industry and short mobile phone's life cycle and our financial results could be adversely affected.

### **We may be involved in litigations, legal disputes, claims or administrative proceedings arising in the ordinary course of our business from time to time**

During the Track Record Period, we had been involved in certain litigations arising in the ordinary course of our business, which includes (i) a joint lawsuit initiated by a factoring company against a customer, us and other suppliers to such customer for the outstanding accounts payable, in which the potential attributable outstanding liability of us amounted to RMB17.1 million plus interest, legal costs and court fees; and (ii) another lawsuit subsequently initiated by the same factoring company against such customer and us separately for the outstanding accounts receivable amounted to RMB29.2 million. For case (i) above, the court had ruled in favor of us and dismissed the case. As at the Latest Practicable Date, for case (ii) above, the hearing date had not yet been confirmed. For details, please see "Business — Legal proceedings" in this prospectus.

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## **RISK FACTORS**

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We may from time to time become a party to various litigations, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. On-going litigations, legal disputes, claims or administrative proceedings may divert our management's attention and consume their time and our other resources. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us, due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved. In addition, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume liabilities and even to suspend or terminate the related business ventures or projects. Consequently, our business, financial conditions and results of operations may be materially and adversely affected.

### **We may face intellectual property infringement claims which could negatively impact our business**

We may face intellectual property infringement claims or otherwise become aware of potentially relevant patents and other intellectual property rights held by other parties. In addition, if our customers face any intellectual property infringement claims in the future, they may still require us to indemnify them for products marketed under their brand names. If such claims are brought against our customers and regardless of whether our customers have merits, we would need to spend a significant amount of money defending these claims. As a result, we may need to bear significant legal costs and pay for damages. We may also be subject to an injunction to refrain from using such intellectual property and all these could negatively impact our business as well as our reputation in the market.

### **Labour shortages and increase in labour cost may have an adverse effect on our business operations**

Our mobile phone assembly work have to be carried out manually. Our need for production personnel will increase in aligning with the expansion of our production capacity and increase of our production volume. Moreover, labour costs had been increasing in the PRC in recent years. There is no assurance that we will not experience any labour shortage for our production or that the labour costs in the PRC will not continue to increase in the future. Furthermore, if labour costs continue to increase in the PRC, our production costs will increase correspondingly and we may not be able to shift these extra costs to our customers due to competitive pricing pressures among our competitors.

If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate any increase in demand for our products or smoothly implement our expansion plans. Hence, our business, prospect, financial conditions and results of operations would be materially and adversely affected.

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## RISK FACTORS

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### **We rely on our key management personnel and highly skilled technical personnel and failure to retain our key management and technical personnel may adversely affect our results of operations**

Our key management team have extensive experience in mobile phone industry. Mr. Li, one of our founders, chief executive officer and chairman of the Board, has more than 20 years of relevant experience in the mobile communications industry in the PRC, which provided him with knowledge and experience that facilitate us in understanding and meeting our customers' needs. Mr. Li also established good business network with both upstream and downstream industry players. Mr. Xiong, one of our founders and executive Directors, has more than 15 years of relevant experience in mobile communications industry. Mr. Li Hongxing, our executive Director who is in charge of our R&D department, has over 10 years of relevant experience in the mobile communication industry, particularly in R&D of communication products.

We cannot assure you that one or more of these key personnel may stay with us in the future and it could be time consuming and difficult to find their replacement. If we fail to attract, hire, assimilate and retain competent and experienced management personnel, our business could be adversely affected.

Further, our continued success also depends on the contribution of our highly skilled technical personnel, such as our R&D team, our quality engineers. If we are not able to recruit and retain highly skilled technical personnel with the required experience, our R&D capability or production will be adversely affected.

### **Our operations may be subject to transfer pricing adjustment by competent authority**

During the Track Record Period, Shenzhen Sprocomm sold a substantial portion of mobile phones and Luzhou Sipukang sold small proportion of PCBAs to HK Sprocomm for onward sales and shipments to overseas customers. According to the EIT Law, other rules and regulations and applicable Hong Kong regulations, related party transactions should comply with the arm's length principle (獨立交易原則). If the related party transactions fail to comply with the arm's length principle, the tax authority has the power to make an adjustment following certain procedures. We are also required to make annual filings in connection with our related party transactions to comply with such laws and regulations. Please see "Business — Sales and our customers — Transfer pricing" for further details.

There is no assurance that the competent tax authorities would not subsequently challenge the appropriateness of our Group's transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If a competent tax authority later determines that the transfer prices and terms that our Group has applied are not in compliance with the applicable transfer pricing rules and regulations, such authority may require our Group to re-assess the transfer prices, re-allocate the income, and/or adjust the taxable income. Any such reallocation or adjustment may result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and results of operation of our Group.



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## RISK FACTORS

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### **We may not be able to enjoy the various benefits including preferential income tax treatment associated with the accreditation as a High and New Technology Enterprise\* (高新技術企業)**

We enjoyed various preferential tax treatments during the Track Record Period. Shenzhen Sprocomm was granted the status of High and New Technology Enterprise\* (高新技術企業) by the relevant PRC government authorities in July 2014, and such status has been renewed and extended for three years in October 2017. According to the applicable PRC laws and regulations, Shenzhen Sprocomm was entitled to a preferential EIT rate of 15% on its assessable profit until 2019. Further, Shanghai Sprocomm was accredited as software enterprise\* (軟件企業) under the relevant PRC laws and regulations in December 2015. Accordingly, Shanghai Sprocomm was exempt from EIT for two years, between 2016 and 2017, followed by a 50% reduction in the EIT rate of 25% for next three years, between 2018 and 2020. In addition, Shenzhen Sprocomm and Shanghai Sprocomm are entitled to an additional 50% of tax deduction for certain qualified R&D costs that did not constitute intangible assets when calculating our taxable income in 2016 and 2017, pursuant to the EIT Law and its relevant regulations. Starting from 1 January 2018, the aforesaid additional tax deductions related to qualified R&D costs were increased from 50% to 75%.

For each of FY2016, FY2017, FY2018 and 4M2019, our tax exemption/deduction granted by the relevant tax authorities amounted to RMB8.0 million, RMB4.5 million, RMB4.0 million and RMB2.0 million, respectively. Further, additional deduction arising from R&D expenses for the corresponding periods amounted to RMB4.7 million, RMB7.1 million, RMB11.2 million and RMB3.8 million respectively.

There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change or cancellation occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow.

### **We are exposed to foreign currency risk**

We principally operate our business in the PRC and a majority of our production costs are denominated in RMB. On the other hand, the majority of our total revenue was derived from the export sales to foreign countries during the Track Record Period. Our revenue, trade receivables and bank balances in respect of these export sales were denominated in USD. Accordingly, we are exposed to foreign exchange rate risk. We currently do not have a foreign currency hedging policy. However, our management closely monitors our foreign exchange exposure and will consider hedging such exposure should the need arise.

If USD significantly depreciates against RMB, our result will be adversely affected. Such foreign exchange rate fluctuations may also affect the price competitiveness of our exports from our customers' perspectives and we cannot assure you that our customers will not switch to cheaper alternatives or suppliers. For details of our Group's foreign currency risk exposure, please see note 38 to the Accountants' Report set out in Appendix I to this prospectus.



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## RISK FACTORS

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### **We may be subject to fines for our failures to contribute to social insurance and housing provident funds for our employees in full**

In accordance with applicable PRC laws and regulations, we are obliged to contribute to social insurance and housing provident funds for our employees. During the Track Record Period, we did not fully contribute to social insurance and housing provident funds for our employees. We have made provisions in the amounts of RMB16.8 million, RMB20.4 million, RMB14.7 million and RMB3.6 million in our financial statements in respect of such potential liabilities in FY2016, FY2017, FY2018 and 4M2019, respectively, for certain of our PRC subsidiaries. According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), for outstanding social insurance contributions that we did not fully pay within the prescribed deadlines, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay; if we fail to make such payments within the stipulated deadline upon receiving the demand notice from the relevant PRC authorities, we may be liable to a fine of one to three times of the outstanding contribution amount. Under the Regulations on Administration of Housing Provident Fund (住房公積金管理條例), (i) for housing provident fund registrations that we fail to complete before the prescribed deadlines, we may be subject to a fine ranging from RMB10,000 to RMB50,000 for each non-compliant subsidiary or branch and (ii) for housing provident fund contributions that we fail to pay within the prescribed deadlines, we may be subject to any order by the relevant people's court to make such payments. As advised by our PRC Legal Advisers, the maximum potential penalty as a result of the aforesaid non-compliance would be the late payment fees which amounted to RMB2.3 million, RMB2.9 million, RMB0.8 million and RMB0.1 million for FY2016, FY2017, FY2018 and 4M2019, respectively.

For more details, please see “Business — Legal compliance” in this prospectus.

### **RISKS RELATING TO THE INDUSTRY**

#### **We operate in a highly competitive mobile phone industry and we may not be able to effectively compete with other industry players**

The mobile phone industry is highly competitive. Our competitors are mainly other ODM mobile phone suppliers in the PRC. We face intense competition from our competitors who regularly launch new mobile phones with new mobile chips and innovative features as the technology develops. If our competitors can relatively allocate more resources to R&D and launch attractive new mobile phones faster than us, we may not be able to respond adequately and timely to cater for technological developments and customer requirements. In addition, we compete in various product lines in terms of price, product quality, and customer design especially the thickness of the mobile phone, sales and technical support. If we lose our competitiveness in any of these aspects, our business will be adversely affected.

We also face strong price competition. If our competitors are relatively more sizable and have more resources to maintain their pricing relatively lower to attract new end-users and to increase their market share, we could be under pressure to reduce our price and our profitability will drop.

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## RISK FACTORS

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**Our future growth depends partly on the continued growth of the mobile phone industry in emerging market and if this market growth becomes stagnant, our business will not further penetrate into existing and new markets**

We sell our mobile phones to our customers mainly in the emerging markets. Currently, the growth of mobile phone unit shipments in the emerging markets remains relatively high, compared to that in developed countries. However, if this growth rate reduces or even becomes stagnant, we could not continue to infiltrate into these markets and increase our market share.

**If there is corporate consolidation among our mobile phone carriers or customers, our business may be adversely affected**

If our customers consolidate as a result of major acquisitions or mergers, their bargaining power may increase as a result of their increased size. We may face stronger pricing pressure accordingly. Also, if there are companies within the new group after consolidation which could take up our role of providing them with mobile phones, our business will suffer. We cannot assure you that this may not happen in the future and if so, our business may be adversely affected.

### **RISKS RELATING TO THE PRC**

**Political and economic policies of the PRC government could affect our Group's business**

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the commencement of the PRC government's effort to reform the Chinese economy in 1978, the PRC government introduced changes to its economic system, as well as the government structure. These reforms have led to significant economic growth and progress in social development. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies have placed much emphasis on creating autonomous enterprises and the utilisation of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation.

Our Directors anticipate that the PRC government will continue to further implement these reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations substantially based in the PRC, our operations and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. We may not be able to capitalise on economic reform measures adopted by the PRC government. We cannot assure you that the PRC government will not impose economic and regulatory controls that may adversely affect our Group's business, financial position and results of operations.

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## RISK FACTORS

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### **Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business**

Our business and operations in the PRC are governed by the legal system of the PRC. The legal system in the PRC is based on statutory law. Under this system, prior court decisions may be cited for references but do not have binding precedential effect. Accordingly, the outcome of dispute resolution may not be consistent or predictable as in other common law jurisdictions.

Interpretation and enforcement of the PRC laws and regulations, including those regulating the mobile phone industry and foreign investments may be subject to changes in policies and political environment. Different regulatory authorities may have different interpretation and enforcement of the mobile phone industry policies and foreign investment policies, which requires companies to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies. If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, or stricter enforcement policies by the relevant PRC regulatory authorities, more stringent requirements could be imposed on the industries we are currently engaged in. Compliance with such new requirements could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to meet such new rules and requirements relating to approval, construction, environmental or safety compliance of our operations, we may be ordered by the relevant PRC regulatory authorities to change, suspend construction of or closure of the relevant production facilities. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial condition and results of operations could be materially and adversely affected. In addition, since the PRC economy is developing at a faster pace than its legal system and the PRC laws and regulations regarding the mobile phone industry and foreign investments are relatively new and evolving, there may be uncertainties as to whether and how existing laws and regulations will apply to certain circumstances or events, and until the development of the legal system is kept abreast of economic reforms and development in the PRC, such uncertainties are likely to remain. We cannot assure you that introduction of new laws and amendments to existing laws by the PRC government may not adversely affect our profitability and prospects. For details of some of the relevant PRC laws and regulations to which our Group is currently subject, please see “Regulations — PRC laws and regulations” in this prospectus.

### **Government control on currency conversion could negatively affect our financial condition, operations and our ability to pay dividends**

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises (“FIEs”) are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates.

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Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

### **Distribution and transfer of funds may be subject to restrictions under the PRC law**

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries.

Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of distributable after-tax profit, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profit that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profit under PRC accounting principles is different in many respects from Hong Kong accounting principles.

Distributions by our subsidiaries in the PRC to our Company may be subject to governmental approval and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by PRC governmental authorities. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities from banks in the future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

### **PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate**

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in the BVI and Hong Kong. According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), if our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our Company, unless our Company is entitled to reduction or elimination of such tax, including by tax treaties. Under the Arrangement between the Mainland China and the Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於所得稅避免雙重徵稅和防止偷漏稅的安排》), such dividend withholding tax rate is reduced to 5% if a Hong Kong tax

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resident enterprise owns over 25% of equity interests in the PRC company distributing the dividends. Pursuant to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (《非居民納稅人享受稅收協定待遇管理辦法》) released by the State Administration of Taxation on 27 August 2015 and took effect on 1 November 2015, non-resident taxpayers who need to enjoy the treatment of the agreement shall submit the report forms and materials by themselves or by the withholding agent at the time of tax declaration. Any new enactment of PRC tax law affecting tax exemptions on dividends may reduce the amount of dividends that could be distributed to our Company and Shareholders.

In addition, the Enterprise Income Tax Law of the PRC provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to statutory enterprise income tax at the rate of 25% on its worldwide income. Substantially all members of our management are located in the PRC, we may be deemed as a PRC tax resident enterprise and therefore subject to a statutory enterprise income tax rate of 25% on our worldwide income, excluding the dividends received directly from another PRC tax resident. As a result of these changes described above, our historical operating results will not be indicative of our operating results for future periods and the value of the Shares will be adversely affected.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained**

Prior to the Global Offering, no public market for our Shares existed. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Global Offering.

In addition, we cannot assure you that our Shares will be traded in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement among the Joint Global Coordinators (on behalf of the Underwriters) and us, and may not be indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of Shares could be materially and adversely affected.

#### **The trading prices of our Shares may be volatile, which could result in substantial losses to you**

The trading prices of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the trading price performance of our competitors based in the PRC may affect the trading price of our Shares. Various broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance. In addition to market and industry

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## RISK FACTORS

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factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

**Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be four business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**The sale or availability for sale of substantial amounts of our Shares could adversely affect their trading price**

Sales of substantial amounts of our Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares.

The Shares owned by our Controlling Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sale will have on the market price of our Shares.

**Because the Offer Price of our Shares is higher than our net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution**

If you purchase our Shares in the Global Offering, you will pay more for your Shares than our net book value on a per Share basis. As a result, investors of our Shares in the Global Offering will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if the Joint Global Coordinators (on behalf of the International Underwriters), exercises the Over-allotment Option or if we obtain additional capital in the future through equity offerings.



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### **There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme**

We have adopted the Share Option Scheme, details of which are set out in “Statutory and general information — Other information — 1. Share Option Scheme” in Appendix IV to this prospectus. Issuance of Shares pursuant to the exercise of options granted or to be granted under the Share Option will result in an increase in the number of Shares in issue after the issuance and thereby will cause dilution to the percentage of ownership of the existing Shareholders, the earnings per Share, and net asset per Share.

### **The laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong**

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company’s minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of the Cayman Islands company laws is set out in Appendix III to this prospectus.

### **Certain statistics and forecasts in this prospectus were derived from third party sources and have not been independently verified**

This prospectus includes certain statistics and facts that have been extracted from official government sources and publications or other sources and we cannot guarantee neither the quality nor the reliability of such source material. They have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of its or their respective affiliates or advisers, and therefore we take no representation as to the accuracy of such facts and statistics. In addition, “Industry overview” in this prospectus contains certain forecast data which were based on certain assumptions which, by their nature, are subjective and uncertain. We cannot guarantee the accuracy or adequacy of such assumptions and accordingly, the forecast data. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place, on such facts, statistics and forecasts in this prospectus.

### **There are risks associated with the forward-looking statements contained in this prospectus**

This prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Group, which are based on the beliefs of our management as well as assumptions made by and information currently available to our management. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus.



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**You should not rely on any information contained in press articles or other media regarding our Group and the Global Offering**

Prior to the publication of this prospectus, there may be certain press and media coverage regarding our Group and the Global Offering which may include certain information relating to business operations, financial information, industry comparisons and other information about our Group that does not appear in this prospectus. We did not authorize the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any investment decision.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

### **INFORMATION AND REPRESENTATION**

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in this Global Offering. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications in relation to subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attaching to them). It is emphasised that none of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, any of the Underwriters, any of their respective directors, agents, advisers, employees, personnel or any other persons or parties involved in the Global Offering accepts responsibility for any tax affairs or liabilities of any person resulting from the subscription for, purchase, holding or disposing of, dealing in our Shares, or the exercise of any rights attaching to our Shares.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Issuer	Sprocomm Intelligence Limited
The Global Offering	<p>The Global Offering of initially 250,000,000 Shares comprising (i) 25,000,000 new Shares for subscription by the public in Hong Kong (subject to reallocation) and (ii) initially 225,000,000 new Shares for subscription under International Placing (subject to reallocation and the Over-allotment Option).</p> <p>If the Over-allotment Option is exercised in full, our Company will be issuing up to 287,500,000 additional new Shares.</p>
Offer price range	Not more than HK\$0.6 per Share and not less than HK\$0.5 per Share
Share borrowing arrangements in connection with settlement	The Stabilising Manager or any person acting for it may borrow from Leap Elite up to 37,500,000 Shares (assuming the Over-allotment Option is exercised in full).
Over-allotment Option	Up to 37,500,000 additional new Shares to be issued by our Company
Procedure for application for Hong Kong Public Offer Shares	Please see “How to apply for the Hong Kong Public Offer Shares” in this prospectus and on the relevant Application Forms in this prospectus.
Conditions of the Hong Kong Public Offering	Details of the conditions of the Hong Kong Public Offering are set out in “Structure and conditions of the Global Offering — Conditions of the Global Offering” in this prospectus.
Lock-up undertakings by our Company and the Controlling Shareholders	Please see “Underwriting — Underwriting arrangements and expenses — Undertakings to the Stock Exchange under the Listing Rules” and “Underwriting — Underwriting arrangements and expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus.
Share registrar	Our principal register of members will be maintained by our Company’s principal share registrar, Tricor Services (Cayman Islands) Limited in the Cayman Islands and our Hong Kong branch register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited in Hong Kong.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Stamp duty	<p>Dealings in the Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.</p> <p>Transfers of the Shares registered on our principal register of members in the Cayman Islands will not be subject to Cayman Islands stamp duty unless our Company holds an interest in land in the Cayman Islands.</p>
Application for listing on the Stock Exchange	<p>Application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. No part of the Share or the loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.</p>
Restrictions on offers and offers for sale	<p>No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.</p>
Eligibility for CCASS	<p>Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and compliance of the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.</p>

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day (as defined in the Listing Rules) after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### Language

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

### Rounding of figures

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place and figures in this prospectus are in approximate figures. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Exchange rate For the purpose of illustration only and unless otherwise specified in this prospectus, the following exchange rates are adopted:

RMB1.00	=	HK\$1.16
RMB1.00	=	USD0.15
RMB1.00	=	INR10.29
RMB1.00	=	PKR20.87
RMB1.00	=	BDT12.49
RMB1.00	=	DZD17.72

No representation is made that the relevant amounts in any particular could have been, or could be, converted into such other currencies or vice versa at such rates or at any other rate on such date or on any other date.

Commencement of dealing in the Shares Dealings in our Shares on the Main Board are expected to commence at 9:00 a.m. (Hong Kong time) on Wednesday, 13 November 2019. Shares will be traded in board lots of 20,000 Shares each.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

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In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### WAIVER PURSUANT TO RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally requires us to have at least two of our executive Directors to be ordinarily residents in Hong Kong. However, our Company would not be able to satisfy the requirements under Rule 8.12 of the Listing Rules for the following reasons:

- (a) none of our executive Directors has been or will be ordinarily resident in Hong Kong;
- (b) the principal business and operations of our Company are based, managed and conducted outside Hong Kong;
- (c) for the purposes of the operations and management of our Group, appointing additional executive Directors who are ordinarily resident in Hong Kong will not only increase the administrative expenses of our Group, but will also reduce the effectiveness and responsiveness of the Board in making decisions for our Group, especially when business decisions are required to be made on a timely basis. In addition, appointing new executive Directors, who may not be familiar with the operations of our Group, to the Board for the sole purpose of satisfying the requirements of Rule 8.12 of the Listing Rules may not be in the best interest of our Group and its Shareholders as a whole. In particular, they will not be able to fully understand the daily operations of the core business of our Group or fully appreciate the circumstances surrounding or affecting the core business operations and development of our Group from time to time, as they will not be physically present in the operation and management base of our Group in the PRC all the time. As such, such executive Directors may not be able to exercise their discretion on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the operations and development of our Group; and
- (d) each of our existing executive Directors has a vital role in the business and operations of our Group and it is of paramount importance for them to remain to be physically close to our Group's operations in the PRC. Relocating any of our existing PRC-based executive Directors to Hong Kong would require time to process the application for residency in Hong Kong and the application will be burdensome and costly for our Company and may not enable the relevant executive Directors to perform their strategic roles in our Group. Since such Directors, after the relocation, will not be physically present at the operation and management base of our Group in the PRC all the time, they may encounter the aforesaid management difficulties.

We do not and in the foreseeable future will not, have sufficient management presence in Hong Kong.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

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Accordingly, we have applied to the Stock Exchange a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, and the Stock Exchange has granted us the waiver, subject to the following conditions:

- (a) we have appointed Mr. Xiong Bin, one of our executive Directors and Ms. Jian Xuegen, our company secretary, as our authorised representatives pursuant to Rule 3.05 of the Listing Rules, and they will serve as the principal channel of communication of the Company with the Stock Exchange who will be readily contactable by the Stock Exchange, and if required, will be able to meet with the Stock Exchange to discuss any matters in relation to the Company in short notice. For further biographical details of Mr. Xiong Bin and Ms. Jian Xuegen, please refer to the sections headed “Directors and senior management — Executive directors” and “Directors and senior management — Company secretary” in this prospectus;
- (b) we will keep the Stock Exchange up to date in respect of any change to the contact details of the authorised representatives. Our Company will only change the authorised representatives after notifying the Stock Exchange of such change and the reasons and having made an appropriate replacement;
- (c) we have provided the authorised representatives and the Stock Exchange the contact details of each Director, including mobile phone numbers, office phone numbers, email addresses and fax numbers. Each of the authorised representatives has means to contact all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any reason. All of our Directors who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents or will be able to apply for valid travel documents to travel to Hong Kong and will be able to meet the Stock Exchange within a reasonable period;
- (d) we have appointed Dakin Capital Limited as the compliance adviser of our Company, pursuant to Rule 3A.19 of the Listing Rules, to act as our Company’s additional channel of communication with the Stock Exchange from the Listing Date to the date on which our Company distributes its financial results for the first full financial year immediately after the Listing Date in accordance with Rule 13.46 of the Listing Rules; and
- (e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in the authorised representatives and/or our compliance adviser.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Li Chengjun (李承軍)	Room 10A, Tower 6 Shekou Zhaoshang Garden III Nanshan District, Shenzhen China	Chinese
Xiong Bin (熊彬)	Room 15B, Tower A3 Fenglin Zuoan, No. 53 Nonglin Road Futian District, Shenzhen China	Chinese
Li Hongxing (李紅星)	Room 404, No. 1, Tower 5 Lane 461 Jianzhong Road Shanghai, China	Chinese
Guo Qinglin (郭慶林)	Room 1902, No. 9 Sixth Phase of Haishang May Flower Dongan North Liuli, Jimei District Xiamen Fujian China	Chinese
<i>Independent non-executive Directors</i>		
Wong Kwan Kit (黃昆杰)	Flat A, 32/F, Block 2 Hilltop Gardens Wong Tai Sin Kowloon Hong Kong	Chinese (Hong Kong)
Lu Brian Yong Chen (呂永琛)	Room B, 14/F, Tower 10 Yujingdongfang Baishi Road, Nanshan District Shenzhen, China	Australian
Hung Wai Man JP (洪為民)	Flat D, 14/F Maple Mansion Tai Koo Shing Hong Kong	Chinese (Hong Kong)
Tseng Chin I (曾瀨漪)	2/F No. 4 Man King Terrace Clearwater Bay Hong Kong	Chinese (Hong Kong)

*For detailed information of our Directors, please see “Directors and senior management” in this prospectus.*

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED

#### Sole Sponsor

#### **Dakin Capital Limited**

Suites 4505-06, 45/F  
Tower 1, Lippo Centre  
89 Queensway  
Hong Kong  
*(a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO)*

#### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

#### **Dakin Securities Limited**

Suite 3509, 35/F  
Tower 2, Lippo Centre  
89 Queensway  
Hong Kong  
*(a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 2 (dealing in future contracts) regulated activities under the SFO)*

#### **Head & Shoulders Securities Limited**

Room 2511  
25/F Cosco Tower  
183 Queen's Road Central  
Hong Kong  
*(a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contract) and type 4 (advising on securities) regulated activities under the SFO)*

#### **CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong  
*(a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO)*

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Hong Kong Underwriters

#### **Dakin Securities Limited**

Suite 3509, 35/F  
Tower 2, Lippo Centre  
89 Queensway  
Hong Kong

#### **Head & Shoulders Securities Limited**

Room 2511  
25/F Cosco Tower  
183 Queen's Road Central  
Hong Kong

#### **CCB International Capital Limited**

12/F, CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

### Legal advisers to the Company

*As to Hong Kong law*

#### **Chungs Lawyers**

28/F, Henley Building  
5 Queen's Road Central  
Hong Kong

*As to Cayman Islands law*

#### **Harney Westwood & Riegels**

3501 The Center  
99 Queen's Road Central  
Hong Kong

*As to PRC law*

#### **Allbright Law Offices (Shenzhen)**

22-23/F, Tower 1  
Excellence Century Centre  
Fu Hua 3 Road, Futian District  
Shenzhen  
P.R. China 518048

*As to Indian law*

#### **Saikrishna & Associates**

VJ Business Tower  
8th Floor, Plot No. A-6  
Sector 125, Noida-201301  
NCR, India

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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	<p><i>As to International Sanctions law</i></p> <p><b>Hogan Lovells</b> 11th Floor, One Pacific Place 88 Queensway Hong Kong</p>
<b>Legal advisers to the Sole Sponsor and the Underwriters</b>	<p><i>As to Hong Kong law</i></p> <p><b>Deacons</b> 5th Floor Alexandra House 18 Chater Road Central Hong Kong</p> <p><i>As to PRC law</i></p> <p><b>Shu Jin Law Firm</b> 12/F, Taiping Finance Tower 6001 Yitian Road, Futian District Shenzhen, China</p>
<b>Auditors and reporting accountants</b>	<p><b>SHINEWING (HK) CPA Limited</b> <i>Certified Public Accountants</i> 43/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong</p>
<b>Tax advisers</b>	<p><b>SHINEWING Tax and Business Advisory Limited</b> 43/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong</p>
<b>Industry consultant</b>	<p><b>China Insights Industry Consultancy Limited</b> 10/F, Block B, Jing'an International Center 88 Puji Road Jing'an District Shanghai, China</p>
<b>Internal control consultant</b>	<p><b>SHINEWING Risk Services Limited</b> 43/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong</p>
<b>Receiving banker</b>	<p><b>Bank of China (Hong Kong) Limited</b> 1 Garden Road Hong Kong</p>

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## CORPORATE INFORMATION

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<b>Registered office</b>	P.O. Box 31119 Grand Pavilion Hibiscus Way 802 West Bay Road Grand Cayman KY1-1205 Cayman Islands
<b>Principal place of business and headquarters in China</b>	5D-506 F1.6 Block Tianfa Building Tianan Chegongmiao Industrial Park Futian District Shenzhen, China
<b>Place of business in Hong Kong</b>	Room A, 12/F Granville House 41C Granville Road Tsim Sha Tsui Kowloon, Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.sprocomm.com">www.sprocomm.com</a></u></b> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Ms. Jian Xuegen (簡雪艮) <i>(Certified Public Accountant)</i> Flat C, 4/F Yick Lee Mansion 26 Kin Tak Street Yuen Long Hong Kong
<b>Authorised representatives</b>	Mr. Xiong Bin (熊彬) Room 15B, Tower A3 Fenglin Zuoan, No.53 Nonglin Road Futian District Shenzhen, China  Ms. Jian Xuegen (簡雪艮) Flat C, 4/F Yick Lee Mansion 26 Kin Tak Street Yuen Long Hong Kong
<b>Audit committee</b>	Wong Kwan Kit (黃昆杰) <i>(Chairman)</i> Lu Brian Yong Chen (呂永琛) Hung Wai Man <i>JP</i> (洪為民)

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## CORPORATE INFORMATION

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<b>Remuneration committee</b>	Hung Wai Man <i>JP</i> (洪為民) ( <i>Chairman</i> ) Wong Kwan Kit (黃昆杰) Lu Brian Yong Chen (呂永琛) Tseng Chin I (曾靜漪)
<b>Nomination committee</b>	Li Chengjun (李承軍) ( <i>Chairman</i> ) Wong Kwan Kit (黃昆杰) Lu Brian Yong Chen (呂永琛) Tseng Chin I (曾靜漪)
<b>Compliance adviser</b>	<b>Dakin Capital Limited</b> Suites 4505–06, 45/F Tower 1, Lippo Centre 89 Queensway Hong Kong <i>(a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO)</i>
<b>Principal share registrar</b>	<b>Tricor Services (Cayman Islands) Limited</b> P.O. Box 10008 Willow House, Cricket Square Grand Cayman KY1-1001 Cayman Islands
<b>Hong Kong Branch Share Registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>Citibank</b> 21/F Citi Tower, One Bay East 83 Hoi Bun Road, Kwun Tong Kowloon, Hong Kong  <b>ICICI Bank Limited</b> 1504B–1506, Level 15 International Commerce Centre 1 Austin Road West Kowloon, Hong Kong



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## INDUSTRY OVERVIEW

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*Unless otherwise indicated, the information presented in this section is derived from the CIC Report, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources. References to CIC should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are appropriate sources for such information and statistics. Our Directors have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information prepared by CIC and set out in this Industry Overview has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party (except CIC) involved in the Global Offering or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.*

### SOURCE OF INFORMATION

We have commissioned CIC, an independent third party, to both conduct an analysis of and to produce a report on the global mobile phone market. The report we commissioned, or namely the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of HK\$780,000 for the preparation of the report, which we consider to be in line with market rates. CIC is a professional industry consulting company established in 2013 and committed to facilitate the investment and financing process. CIC's services include industry consulting, commercial due diligence, strategic consulting, etc.

### CIC REPORT

CIC undertook both primary and secondary research using various resources. Primary research involved interviewing key industry experts and leading industry participants and secondary research involved analysing data from various publicly available data sources, including National Bureau of Statistics of China, Chinese government releases, annual reports of relevant industry participants, industry associations, CIC's own internal database, etc.

The market projections in the commissioned report are based on the following key assumptions: (i) the overall global social, economic, and political environment is expected to remain stable during the forecast period from 2019 to 2023; (ii) related key industry drivers are likely to propel the development of the global smartphone market throughout the forecast period, including the improvements of telecommunication networks, increasing importance of mobile phones in human life and rising number of distribution channels; and (iii) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

All statistics are reliable and based on information available as of the date of this report. Other information sources, including from the government, industry associations, or market participants, may have provided some of the information on which the analysis or its data is based. CIC reached the conclusions in CIC report using multi-methodologies to ensure data validation and integrity assessment.

All the information pertaining to our Company has been sourced from our Company's own audited reports or through management interviews. Information regarding our Company has not been independently verified by CIC.

Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there was no adverse change in any of the market information since the release date of the CIC Report, which may qualify, contradict, or have an impact on the information as disclosed in this section.

### OVERVIEW OF THE GLOBAL MOBILE PHONE MARKET

Mobile phone is a fast-moving consumer good. End-consumers generally consider price, brand, appearance, weight, functions and camera's image quality before they decide to purchase a mobile phone. Mobile phone manufacturers constantly roll out new models with more attractive appearance and functions to maintain their market share.

## INDUSTRY OVERVIEW

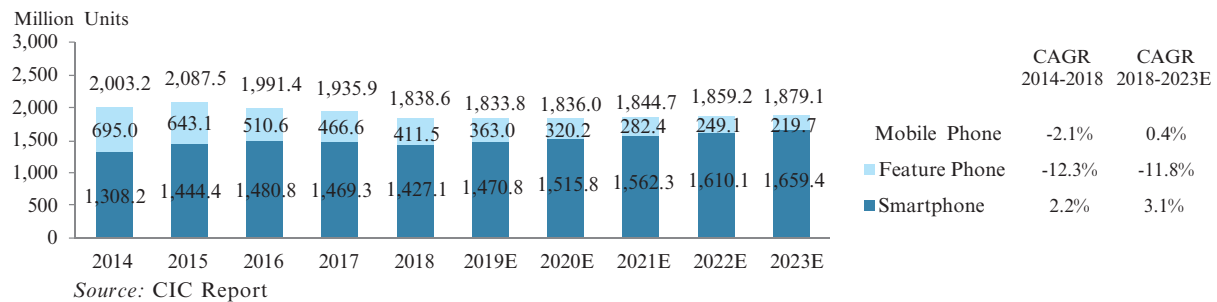
Mobile phones can be divided into smartphones and feature phones. Smartphones refer to mobile phones with complete operating systems, powerful processors, large storages, front-facing and rear-facing cameras, and third-party apps that can be selectively installed for different functions. Users can multitask at the same time by pressing the screens or virtual keyboards. Feature phones provide voice calling and text messaging functions, basic multimedia and the internet capabilities. They are affordable, durable, simple-to-use, and therefore suitable for the elderly and those who are unfamiliar with technology. They also do better in certain environments and occasions, including places with poor power supply, extreme weather conditions, and in companies with high information security requirements.

### Unit shipments of mobile phone market

Global unit shipments of mobile phones decreased from 2,003.2 million units in 2014 to 1,838.6 million units in 2018, representing a negative CAGR of 2.1%.

Smartphones have been dominating the global mobile phone shipments due to their wide variety of functions, well-designed appearance, and improved user interaction. Global unit shipments of smartphones expanded from 1,308.2 million units in 2014 to 1,427.1 million units in 2018 at a CAGR of 2.2%, while global unit shipments of feature phones dropped from 695.0 million units in 2014 to 411.5 million units in 2018 at a negative CAGR of 12.3%.

### Global unit shipments of smartphone and feature phone, Global, 2014–2023E



China is the world's largest smartphone market, accounting for 30.6% of global smartphone unit shipments in 2018. Emerging Asia (excluding China) also accounted for a significant portion of the global smartphone unit shipments with a share of 17.5%. As compared with other countries, Emerging Asia (excluding China) witnessed the fastest growth of smartphone shipment from 2014 to 2018 at a CAGR of 11.8%. The large population bases of Emerging Asia (excluding China), the current low smartphone penetration rates, and the significant investments in R&D and advertising from Chinese mobile phone brand owners in Emerging Asia (excluding China) will drive the growth of smartphone unit shipments in Emerging Asia (excluding China) at a CAGR of 10.9% from 2018 to 2023.

Among the countries in Emerging Asia (excluding China), India has significant contribution to the smartphone unit shipments growth in Emerging Asia (excluding China). India is the world's second most populated country with a population of 1.3 billion, close to one-fifth of the world's population. Supported by its huge population and rapid improvement of the living standards of Indian consumers, India was also the largest feature phone market (accounting for 35.2% of the global feature phone unit shipments in 2018) and the third largest smartphone market in the world (accounting for 10.2% of the global smartphone unit shipments in 2018).

India's mobile phone unit shipments rose from 210.7 million in 2014 to 289.9 million in 2018, representing a CAGR of 8.3%, and are expected to increase to 410.2 million in 2023 at a CAGR of 7.2%. Smartphone unit shipments reached 145.1 million in 2018 with a CAGR of 16.2% from 2014 to 2018, and are expected to further increase to 268.5 million in 2023. Feature phone unit shipments reached 144.8 million in 2018, but are expected to slightly decrease to 141.7 million by 2023.

Our Group's major customers in India during the Track Record Period included Micromax, Lava and Customer R. Micromax ranked sixth in 2018 in India in terms of sales value of smartphone. Customer R, Micromax and Lava ranked first, fourth and sixth respectively in 2018 in India in terms of sales value of feature phone.

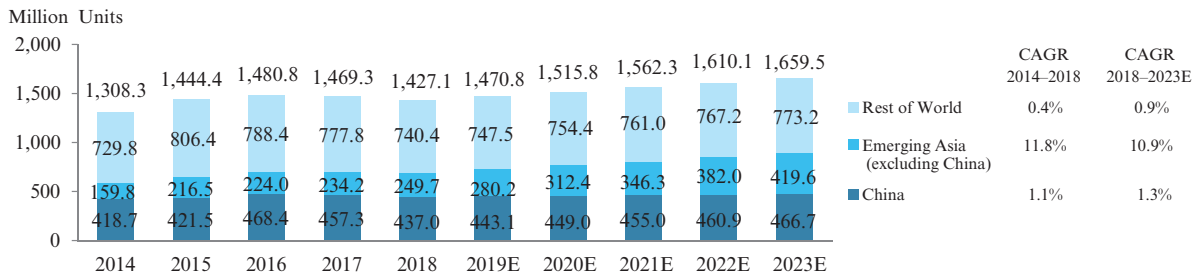
## INDUSTRY OVERVIEW

Pakistan's smartphone unit shipments experienced rapid growth from 2014 to 2018 with a CAGR of approximately 36% owing to the drastic shift from feature phone to smartphone started in 2014, and is expected to grow at CAGR of about 10% from 2018 to 2023. Digicom Qmobile, our Group's major customer in Pakistan during the Track Record Period ranked fifth in 2018 in Pakistan in terms of sales value of smartphone.

Bangladesh's smartphone unit shipments experienced rapid growth from 2014 to 2018 with a CAGR of approximately 9% owing to the drastic shift from feature phone to smartphone started in 2014, and is expected to grow at CAGR of about 8% from 2018 to 2023. Edison Group, our Group's major customer in Bangladesh during the Track Record Period ranked first in 2018 in Bangladesh in terms of sales value of smartphone.

For background information of our Group's major customers during the Track Record Period, please see "Business — Our customers".

### Global smartphone unit shipments by region, 2014–2023E



Source: CIC Report

### Smartphone unit shipments of India, 2014–2023E

Year	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR 2014-2018	CAGR 2018-2023E
India	79.5	102.0	108.0	124.0	145.1	167.2	190.6	215.2	241.2	268.5	16.2%	13.1%

Source: CIC Report

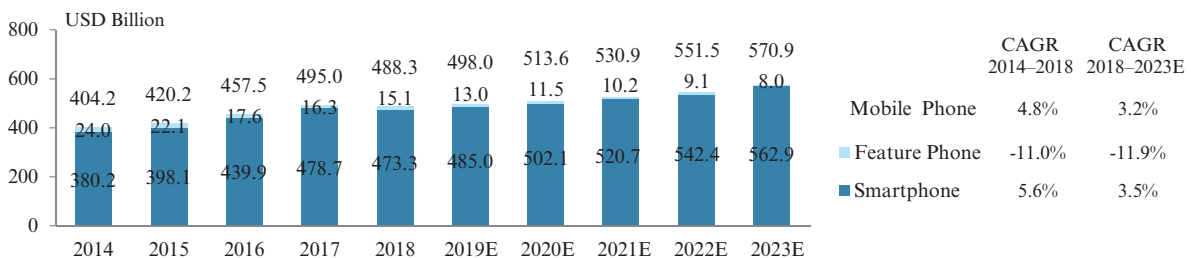
### Sales value of mobile phone market

Global mobile phone sales value increased from USD404.2 billion in 2014 to USD488.3 billion in 2018, with a CAGR of 4.8%, and is expected to reach USD570.9 billion in 2023 with a CAGR of 3.2%. This is mainly driven by the stable growth of the smartphone sales value, accounting for 90% of the global mobile phone sales value. Global smartphone sales value is expected to keep rising at a CAGR of 3.5% from 2018, before reaching USD562.9 billion in 2023 due to the increase in unit shipments and ASP. Global sales value of feature phones recorded a declining trend from 2014 to 2018, and is expected to drop further to USD8.0 billion in 2023. The decline in sales value of feature phones results from the increasing dominance of smartphones.

The ASP of mobile phones rose from USD201.8 in 2014 to USD265.6 in 2018 with a CAGR of 7.1%, and is expected to reach USD303.8 in 2023, driven by the increase in the ASP of smartphones. The ASP of smartphones is expected to increase from USD331.6 in 2018 to USD339.2 in 2023, resulting from the expected increase in sales of high-end smartphones with larger displays, more advanced camera functions, enhanced speed and performance.

The ASP of feature phones remained stable at a range between USD34.5 and USD36.6 from 2014 to 2018, and is expected to remain stable until 2023.

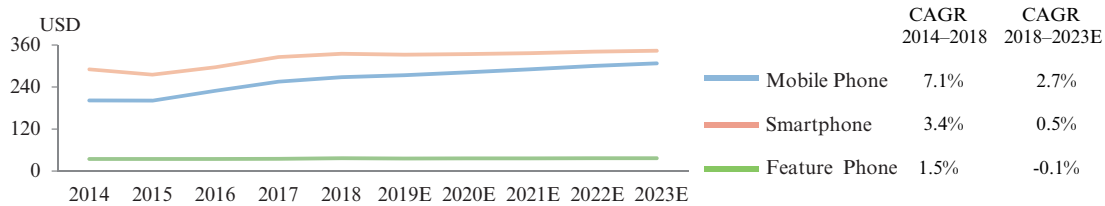
### Global sales value of smartphone and feature phone, 2014–2023E



Source: CIC Report

## INDUSTRY OVERVIEW

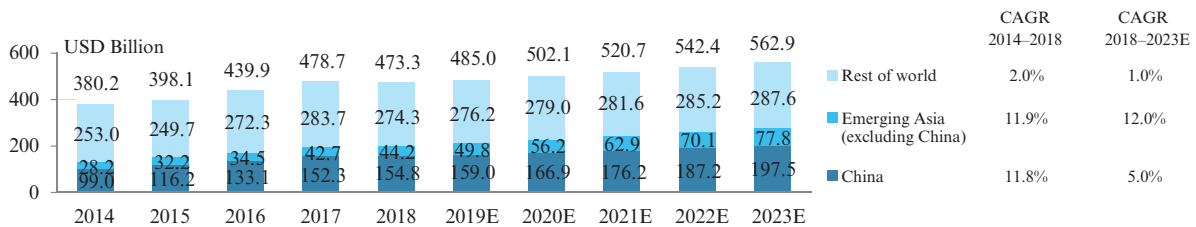
### Average Selling Price (ASP) of smartphone and feature phone, Global, 2014–2023E



Source: CIC Report

As compared with the rest of the world, Emerging Asia (excluding China) recorded the fastest growth in smartphone sales value from 2014 to 2018. This trend is expected to continue from 2018 to 2023. India contributes significantly to the smartphone sales value of Emerging Asia (excluding China) for the reasons mentioned in “Unit shipments of mobile phone market” in this section. India’s smartphone sales value increased from USD11.0 billion in 2014 to USD20.1 billion in 2018, representing a CAGR of 16.3%, and is expected to reach USD38.6 billion in 2023 with a CAGR of 14.0%. The growth was mainly driven by the rise of smartphone unit shipments, while the rising ASP of smartphone will act as an additional growth factor from 2019 to 2023.

### Global smartphone sales value by region, 2014–2023E



Source: CIC Report

### Smartphone sales value in India, USD Billion, 2014–2023E

USD Billion	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR 2014–2018	CAGR 2018–2023E
India	11.0	13.5	13.3	17.5	20.1	23.0	26.6	30.4	34.3	38.6	16.3%	14.0%

Source: CIC Report

### Penetration rates of the smartphone market

The global penetration rate of smartphones witnessed an incredible upsurge from 32.5 to 65.4 units per hundred people from 2014 to 2018. This is due to (1) the increasing internet coverage, driven by the roll-out of 4G; (2) the improving disposable income levels, consumption intentions, and aesthetic requirements; (3) the improving availability of smartphones, not only in terms of online and offline sales terminals, but also in terms of varied prices and functions to cater for different income levels and needs. This growth is expected to slow down before reaching 89.2 units per hundred people in 2023.

Among all the regions, India experienced the fastest smartphone popularisation from 2014 to 2018, from 6.8 units to 42.3 units per hundred people, which in turn stimulated the penetration rate of smartphones in Emerging Asia (excluding China) to grow from 14.3 units to 52.5 units per hundred people. This was driven by Chinese mobile phone brand owners’ significant investments in marketing, high subsidies for distributors, and their cooperation with local carriers to create cheaper monthly packages and offer free smartphones. The smartphone penetration rates in Emerging Asia (excluding China) were significantly lower than those of developed countries and the global average in 2018, indicating that there is ample room for future growth with their steady economic growth. In 2023, the smartphone penetration rates in Emerging Asia (excluding China) and India are forecasted to reach 77.7 units per hundred people and 66.7 units per hundred people, respectively.

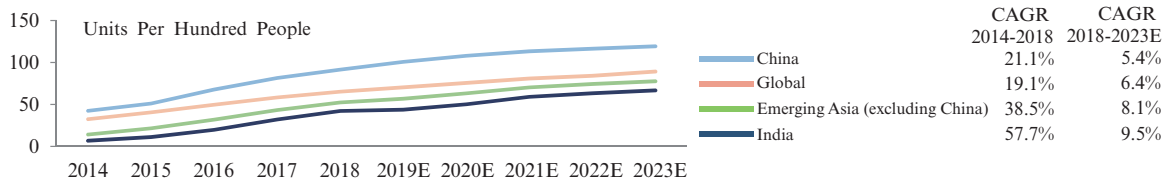
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## INDUSTRY OVERVIEW

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The competitive landscape is becoming more challenging in India due to the low smartphone penetration rate. This low penetration rate has been attracting many companies, especially Chinese brands looking for new overseas opportunities in the context of China's saturated highly domestic smartphone market. Xiaomi built its own factory in India and overwhelmed Indian smartphone brands that imitate other brands. OPPO and VIVO saw remarkable expansion in the offline market by gaining celebrity endorsements and competition sponsorships, as they did in China.

Smartphone penetration rates, 2014–2023E



Source: CIC Report

### Drivers of the mobile phone industry

#### 1. Improvement of telecommunication networks

Telecommunication networks are used for information exchange by electronic means, and can be classified into 3G, 4G and 5G. In emerging markets, the accelerated construction of mobile telecommunication infrastructure improves the internet coverage of 3G and 4G networks. This leads to an increasing number of mobile phone users switching from feature phones to smartphones, which then drives the growth of global smartphone unit shipments. In addition, smartphones are much more expensive than feature phones, which increases the mobile phone sales value and drives the growth of the mobile phone ODM industry. As more countries support 5G rollouts, the next 5 to 10 years will be the 5G era. Chinese companies, including China Mobile, China Unicom and China Telecom are moving forward with an ambitious plan to launch wide-scale commercial 5G services by 2020. 5G is anticipated to accelerate the trend of digital transformation by creating more direct gateways to promote the mobile phone industry as well as the ODM industry.

China, Japan, South Korea and Australia are competing with the US and some European countries to be the first tier to launch commercial 5G services in late 2019 or early 2020. Details of the commercial launch of 5G services in certain countries of Emerging Asia are set out as follows:

**China:** CMCC (China Mobile Communications Corporation) plans to build over 50,000 5G base stations in more than 50 cities in 2019. China's three major telecom service providers are expected to implement 5G pre-commercial use as of 2019 and roll out the 5G network for commercial use in 2020.

**India:** Indian telecom operators are actively buying equipment, and India is anticipated to see roll out of the 5G technology by 2020. Customer R plans to provide 5G services and roll out their own 5G handsets in 2020.

**Pakistan:** Pakistan Telecommunication Authority has been preparing for public 5G trials in 2019 and it is estimated that Pakistan will roll out 5G for commercial use in 2020.

**Bangladesh:** Huawei has conducted Bangladesh's first 5G trial during Bangladesh 5G Summit 2018. Bangladesh Telecommunication Regulatory Commission confirmed in 2019 that telecom operators will be given 5G licenses in 2020, and it is anticipated that Bangladesh will roll out the 5G network for commercial use in 2021.

#### 2. Increasing importance of mobile phones in human life

Mobile phone dependency is on the rise, not only because there are more mobile phone users, but also due to the higher frequency and duration of mobile phone usage. People demand instant access to messages, emails, social media news, games, etc. The improvement and diversification of



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## INDUSTRY OVERVIEW

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apps further deepens user dependence on smartphones. Some of the new versions of apps can only be downloaded from the latest versions of operation systems, encouraging users to upgrade their smartphones, which benefits the mobile phone industry as well as the ODM industry.

### ***3. Rising number of distribution channels, especially online stores***

Consumers used to purchase mobile phones from electronic device retail stores and the retail stores operated by telecommunication operators. The growing popularity of online shopping in recent years increases the accessibility of mobile phones for consumers and stimulates mobile phones sales. In emerging markets, consumers purchase mobile phones mainly from telecommunication operators. These operators often provide data packages and options to pay by instalments to consumers, which attracts more users to buy a new mobile phone and therefore drives the growth of mobile phone ODMs that target these emerging markets.

### ***4. Government support***

Countries around the world are releasing regulations that support the growth of the electronics industry. For example, Germany has its “German Industry 4.0 initiative” and China has its “Electronic Information Manufacturing 13th Five-year Plan” and “Made in the PRC 2025”. These policies will attract more investments in the mobile phone industry as well as the ODM industry.

## **Future trends for mobile phone industry**

### ***1. Increasing smartphone unit shipments, driven by emerging markets***

Global smartphone unit shipments are expected to see a stable growth, benefiting from the development potential of Emerging Asia (excluding China), Middle East, Africa, and Latin America. These regions have relatively low smartphone penetration rates, future network infrastructure construction plans, accelerating urbanisation, and improving disposable income levels. On the other hand, the current high penetration rates of smartphones in developed regions implies that smartphone replacements and upgrades will be the major source of smartphone unit shipments. Therefore, mobile phone brand owners and manufacturers need to be innovative to spur smartphone replacements and upgrades.

### ***2. Increasing smartphone prices, driven by replacements***

With the development of smartphone technology as well as the improvement of consumption power, smartphone users will keep replacing and upgrading their devices to better quality ones, with more functions, longer battery life, and better privacy protection. Mobile phone brand owners and manufacturers will roll out new products to satisfy the market demand, and also raise the selling price of new products. Further, as users are becoming increasingly dependent on smartphones for checking news, social networking platforms, mobile shopping, mobile payment, navigation, entertainment, they are willing to pay more for smartphones.

### ***3. Market share of Chinese mobile phone ODMs is expected to remain high and solid***

The global mobile phone industry depended largely on Chinese mobile phone ODMs. Huaqin, Wingtech, and Longcheer lead the pack with mid-to-premium tier phones. Whereas, the long tail tier-2 ODMs such as our Group, Techain, Ragentek and CK Telecom are working with local operators across different markets to focus on low-to-mid-tier smartphone models. The proportion is expected to further increase because more brand owners realise that outsourcing tasks to Chinese mobile phone ODMs helps reduce the costs of R&D and production, improves production capacity, and shortens the time it takes to release new products. The mobile phones manufactured by China ODMs are expected to maintain a relatively high market share of the global mobile phone market in terms of unit shipments.

### ***4. Concentrated ODM competition***

Wingtech, Huaqin, and Longcheer have been leading ODMs in terms of mobile phone unit shipments for many years, and have strengthened their dominating positions by accumulating many design and manufacturing techniques, having stable relationships with suppliers and customers, and by having a large capital base as well as management capabilities.

## INDUSTRY OVERVIEW

### 5. IoT further drives the ODM market

With the emergence of various internet connected products, ODMs are expanding their product range to include IoT related devices.

IoT is based on the concept that every object can connect to the internet to exchange information and increase its intrinsic value. The scope of IoT is vast, and it can be embedded with electronics, software, sensors, actuators, etc. This connectivity allows people to record and share data which has been collected manually before and integrate digital information from the physical world into computer-based systems, thus creating economic benefits and reducing human exertion.

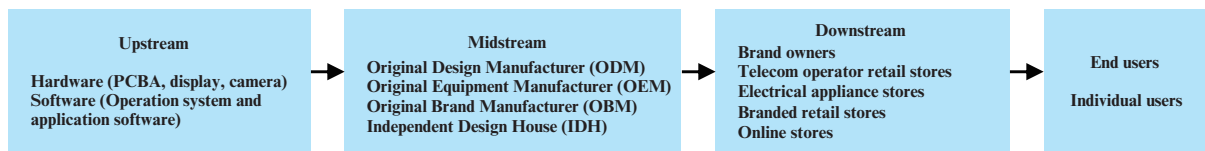
The market demand for IoT related products will be driven by supportive governmental policies (for the PRC market), rising demand for consumer electronics, IoT's important role in developing smart cities which has been viewed as a key strategy to promote industrialisation, informatisation and urbanisation and high demand for the Internet of Vehicles (network connected cars that share digital information between businesses, organisations, infrastructures, people and things).

It is estimated that 35.1 billion IoT devices (excluding consumer communication devices such as smartphones and tablets) will be connected by 2023, reflecting a CAGR of 30.4% from 2018 to 2023. The market volume is mainly driven by three downstream industries, including utilities, automotive and consumer electronics.

### OVERVIEW OF CHINA'S MOBILE PHONE MARKET

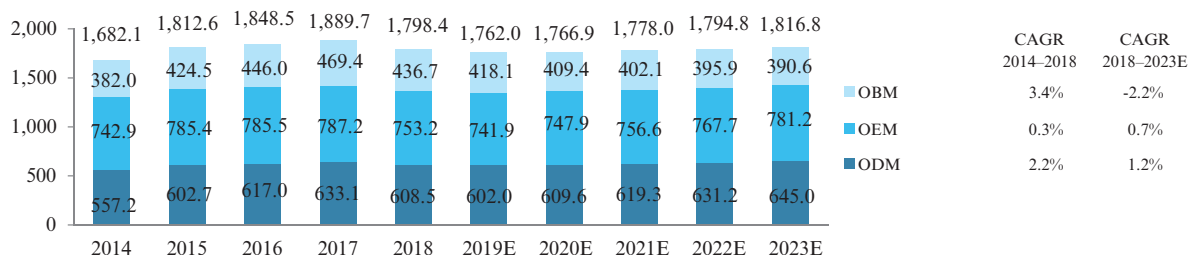
#### Value chain of China's mobile phone market

Upstream market players include manufacturers of mobile phone components and suppliers of operation system and application software. Midstream market players mainly include ODMs, OEMs and OBMs. ODMs are responsible for the design, research and development and production of mobile phones on behalf of the mobile phone brand owners. Major ODM players include Wingtech, Huaqin, and Longcheer. OEMs are responsible for the production of mobile phones with the design and brands of the mobile phone brand owners. Major OEM players include Foxconn, Pegatron, BYD and Inventec. Major OBM players include Samsung, OPPO and VIVO, who design and manufacture mobile phones under their own brand names. Major mobile phone brand owners include Apple, Huawei and Xiaomi. By outsourcing the design, research and development and production to ODM or the production to OEM, mobile phone brand owners can concentrate on the marketing and distribution of mobile phone products to end users.



Source: CIC Report

#### Mobile phone unit shipments in China, 2014–2023E



Source: CIC Report



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## INDUSTRY OVERVIEW

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The unit shipments of mobile phones manufactured by China mobile phone ODMs increased from 557.2 million in 2014 to 608.5 million in 2018, and are expected to reach 645.0 million in 2023 at a CAGR of 1.2% from 2018 to 2023. The mobile phone unit shipments of China's OEMs increased from 742.9 million in 2014 to 753.2 million in 2018, and is forecast to reach 781.2 million in 2023. While the mobile phone unit shipments of China's OBMs grew from 382.0 million in 2014 to 436.7 million in 2018, and are anticipated to decrease to 390.6 million in 2023 as more OBMs are forecast to outsource their manufacturing process to OEMs or ODMs, and that Samsung is planning to shift its mobile phone manufacturing sites to Vietnam and India.

China's total mobile phone unit shipments reached 1,798.5 million in 2018, and the top 10 mobile phone manufacturers are estimated to have a total mobile phone unit shipments of approximately 1,017.7 million, occupying 56.6% of the total market. The total mobile phone unit shipments of our Group was 20.1 million in 2018, representing 1.1% of China's total mobile phone unit shipments.

Leading OBMs including OPPO, VIVO and Samsung had a total mobile phone unit shipments of approximately 306.8 million as of 2018 owing to their leading global market share. OEMs including Foxconn, Pegatron, BYD electronics and Zowee also ranked high due to the fact that they are major manufacturers for Apple and Huawei, and their total mobile phone unit shipments reached 472.8 million as of 2018. Top ODMs, consisting of Wingtech, Huaqin, and Longcheer, with a total mobile phone unit shipments of 238.1 million, accounting for about 23.4% of China's top 10 mobile phone manufacturers.

### OVERVIEW OF CHINA'S MOBILE PHONE ODM MARKET

#### China mobile phone ODM market size

The unit shipments of mobile phones manufactured by ODMs increased from 557.2 million in 2014 to 608.5 million in 2018. The unit shipments growth of large-scaled ODMs, namely Wingtech and Huaqin, came from the unit shipments expansion of their major clients, such as Huawei, Xiaomi, Lenovo, and Meizu. For instance, Huawei outsourced the design and manufacturing of its mid to low-end mobile phone models to Wingtech, Huaqin, as well as OnTim, and these ODMs manufactured over 57.8% of Huawei's mobile phones in 2017.

The unit shipments growth of tier-2 and tier-3 ODMs, namely Sprocomm, Techain, Ragentek and CK Telecom, is largely driven by their cooperation with overseas brand owners such as Micromax, Lava and Qmobile. The mobile phone unit shipments of China's ODMs are expected to reach 645.0 million in 2023 at a CAGR of 1.2% in the forecast period. The relatively slow growth rate is mainly because of the limited growth of global mobile phone unit shipments.

ODM's mobile phone export value to Emerging Asia (excluding China) is estimated to grow from RMB12.7 billion in 2014 to RMB40.3 billion in 2018, and is expected to reach RMB113.2 billion in 2023.

#### ODM competitive analysis

The mobile phone ODM market in China was relatively concentrated, and is expected to be more concentrated as market players are becoming polarised. Top 10 market players accounted for 58.3% of total market share in China's mobile phone ODM market, in terms of mobile phone unit shipments. Our Group, with a market share of 3.3%, ranked 5th among all China's mobile phone ODM in 2018. Wingtech, Huaqin, and Longcheer have been leading ODMs by unit shipments for many years. Based on product diversification strategies and product differentiation, Wingtech and Huaqin have strengthened their dominating positions with rising market shares, gradually distancing themselves from other ODMs.

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## INDUSTRY OVERVIEW

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### Top ten mobile phone ODMs in China, 2018

Rank	Company	Unit Shipments (Million Units)	Market share (%)
1	Wingtech Technology Co., Ltd.	90.5	14.9%
2	Huaqin Telecom Technology Co., Ltd.	85.5	14.1%
3	Shanghai Longcheer Technology Co., Ltd.	62.1	10.2%
4	FortuneShip Group	29.8	4.9%
5	Sprocomm Technologies Co., Ltd.	20.1	3.3%
6	CK Telecom Co., Ltd	19.8	3.3%
7	Shenzhen Chino-E Communication Co., Ltd.	18.0	3.0%
8	Tinno Mobile Technology Corp	13.0	2.1%
9	Ragentek Huizhou Electronics Co	10.0	1.6%
10	Shanghai Wind Communication Technologies Co., Ltd	5.7	0.9%
	Total	<u>354.5</u>	<u>58.3%</u>

Source: CIC Report

### Entry barriers of China's mobile phone ODM market

#### 1. *Scale economy*

The mobile phone ODM market, in particular smartphone, has a relatively strong scale effect. New entrants of the mobile phone ODM market take time to build up business relations with customers and accumulate sales orders. As compared with existing market players, new entrants may have weaker bargaining power in raw material procurement.

#### 2. *Large capital investment*

A high initial investment is often required to start an ODM business due to the significant costs of machinery procurement, leasing sufficient space for operations and storage, staff recruitment and training, and raw material sourcing. The return on investment for a newly established mobile phone manufacturer is slow, as time is needed to reach an economy of scale and optimise the production flow. As a result, new entrants will face the barrier of large capital investment requirements, including high setup costs and risk of investment loss.

#### 3. *Experienced and qualified staff*

Experienced and qualified workers and engineers are vital for the success of mobile phone designing and manufacturing. A good balance between daily production quantity and quality requires a long-term accumulation of practical experience and knowledge. New entrants may not be able to attract and retain a sizeable pool of skilled workers to successfully cater to the continuously increasing requirements from customers.

#### 4. *Loyal customers*

New entrants face the challenge of attracting new customers, since customers in the ODM market are loyal to suppliers to the guarantee the confidentiality of product design and customisation.

#### 5. *High R&D capability*

The ODM market needs excellent R&D abilities in order to innovate mobile phone screens, chips, cameras, and artificial intelligence. Cooperation with upstream and downstream partners may improve R&D ability. New entrants may lack R&D ability.

#### 6. *Solid supply chain management capability*

ODMs offer a diversity of services, including network communication, product design, manufacturing, quality control, logistics, and after-sales service. It is difficult for new entrants to establish and manage a complete, efficient and competitive supply chain.

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## INDUSTRY OVERVIEW

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### Success factors of China's mobile phone ODM market

#### 1. *Innovative research and development capability*

Experience and capability in developing advanced and innovative mobile phones with high quality and low prices are the primary competitive strengths for the mobile phone ODM industry. High quality mobile design solutions and final products enable mobile phone ODMs to establish brand awareness and long-term relationships with mobile brands. A significant amount of time and capital needs to be spent on market research and technological development to achieve innovation with market value, react quickly to fast-changing demands, and stay up-to-date with the latest technologies.

#### 2. *Reliable upstream supply*

Upstream supply is important for midstream manufacturers in terms of providing timely, stable and sufficient raw materials at reasonable prices, which guarantees the profit margins of manufacturers. Manufacturers may also produce parts with their own core raw materials such as PCBAs. Through vertical integration they can achieve more comparable manufacturing capabilities and to create a higher profit across the entire value chain. Furthermore, price risks and extra transportation costs for raw materials can be largely eliminated in integrated production environments.

#### 3. *Personnel management*

Experienced and qualified staff, particularly engineers and technicians, are vital for the success of ODMs. A group of experienced staff is able to optimise the production procedure while maintaining a balanced production flow and quality of the products in daily operation.

#### 4. *Long-term customer relationships*

The gross profit margin of mobile phone ODMs largely depends on whether their shipments can bring a scale effect. Manufacturers need to build and maintain long-term and cooperative relationships with mobile brands to secure orders. The methods include delivering eligible design solutions and final products with a high market value on time, achieving patient and fluent communication, and undertaking aggressive selling and promotion efforts.

### Key components of mobile phone

Costs of mobile phones are subject to price fluctuation caused by components cost, labor cost and operation cost. Components cost accounts for 80% to 90% of total production costs of a mobile phone, while labor cost, operation cost and others account for the remaining 10% to 20%. The key components for smartphones include PCBAs, batteries, chipsets, displays and cameras.

The costs of mobile phone components are affected by supply of these components, market demand for mobile phones and the size of purchase orders placed by the mobile phone manufacturers.

#### Global average unit price of key mobile phone components, 2015–2018

Key components	2015	Average price		2018
		2016	2017	
RAM (USD/GB)	5.7	3.3	6.4	6.9
ROM (USD/GB)	0.6	0.4	0.5	0.5
Entry-level system on a chip (USD/unit)	2.5	2.5	2.9	3.0
1080 Pixel Display Module (USD/Unit)	18.5	14.2	11.0	10.7
Lithium-ion Battery (USD/kWh)	360.0	275.0	209.0	200.0
Camera Module (USD/Unit)	3.9	4.8	5.7	6.9

Source: CIC Report

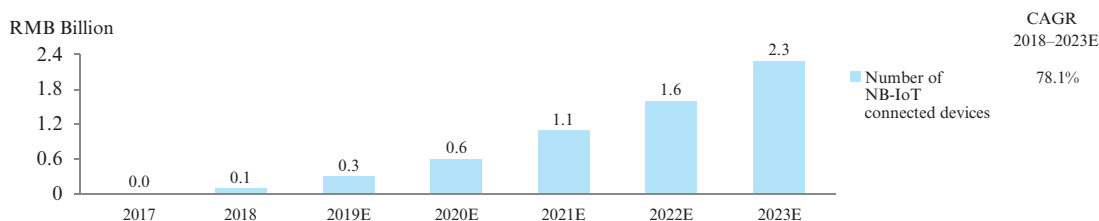
## INDUSTRY OVERVIEW

### OVERVIEW OF CHINA'S NARROWBAND NB-IoT INDUSTRY

During the Track Record Period, our Group developed various IoT related products, which included PCBAs or IoT modules for smart locks and automatic electricity meter readers. NB-IoT is a low power wide area network radio technology standard, which enables a wide range of new IoT devices and services. NB-IoT significantly improves the power consumption of devices, system connection capacity and range of coverage.

Major application scenarios of NB-IoT include smart city (intelligent water/electricity/gas meters, smart street lights, smart fire hydrants, driving recorder, etc.), smart home (smart lock, smart air-conditioner, smart refrigerator, person/pet tracker, etc.), smart retail (POS machines, digital advertising boards, vending machines, electronic monitor, etc.), industrial-use devices (gas detector, manufacturing real-time data collector, supervisory monitor, etc.).

#### Number of NB-IoT connected devices in China, 2017–2023E



Source: CIC Report

The value chain of NB-IoT industry mainly includes chip suppliers, module manufacturers, terminal devices and telecommunication operators.

NB-IoT provides improved indoor coverage, support of massive number of low throughput devices, low delay sensitivity, low device cost, ultra-low power consumption and optimised network architecture, and the year 2017 witnessed the commercial deployment of NB-IoT in China, especially the application of smart water/electricity/gas meters.

According to the Ministry of Industry and Information Technology, full coverage of NB-IoT network has been realised in China's municipalities and some major cities, and the number of base stations and NB-IoT connected devices have reached 0.4 million and 20 million respectively, by the end of 2017. In addition, it proposed that the number of base stations and NB-IoT connected devices are expected to reach 1.5 million and 600 million respectively as of 2020.

Promoted by government's policies and regulations and huge amount of capitals on NB-IoT technologies invested by telecommunication operators and electronics companies, the number of NB-IoT connected devices is anticipated to reach 2.3 billion as of 2023, representing a CAGR of 78.1% from 2018 to 2023.

#### Drivers of China's IoT industry

##### 1. Government support and policies to promote the IoT industry

The PRC government implemented a series of regulations and policies to promote the development of China's electronics manufacturing and IoT industry, including Guidance on Further Expanding and Upgrading China's Information Consumption Industry, and Stimulating Potential Domestic Demand in this Industry 《關於進一步擴大和升級資訊消費持續釋放內需潛力的指導意見》, Outline of the 13th Five-year Plan for the National Economic and Social Development of the PRC 《中華人民共和國經濟和社會發展第十三個五年規劃綱要》, Action Plan for Pilot Demonstrations of Intelligent Manufacturing in 2016 《智慧製造試點示範2016專項行動實施方案》, Made in China 2025 《中國製造2025》, Guiding Catalogue for Foreign-funded Industries (2015 revision) 《外商投資產業指導目錄(2015年修訂版)》.

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## INDUSTRY OVERVIEW

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These regulations and policies aimed at encouraging the establishment of smart factories with automated manufacturing technologies, reducing production costs, shortening production cycles, decreasing defective rates, accelerating the development of IoT products or applications, such as smart home devices, smart wearable devices, the application of cloud computing and big data analysis in home appliances and audio-visual products to provide personalised services to customers.

### ***2. Investments made by the PRC's telecommunication operators and electronics companies in the IoT industry***

China Unicom built its strategy focusing on key IoT markets including industrial internet, smart transportation, smart city, smart healthcare and smart energy. China Mobile invested about RMB39.5 billion on NB-IoT/eMTC related fields. China Telecom has signed strategic cooperation agreements with more than 250 cities on developing smart city (relevant IoT products include water monitors, light monitors, electricity monitors, etc.).

China's top 4 smartphone brand owners (Huawei, Xiaomi, OPPO and VIVO) have expanded their business activities into the smart home market. Huawei and Xiaomi have already launched a series of smart home devices, including smart speakers, smart locks, vacuuming robots, and AI cameras. Huawei and Xiaomi have also launched their own smart home platforms. In 2019, Huawei announced their plan of investing more than USD6 billion on R&D of IoT related fields, OPPO and VIVO are expected to begin actively pursuing expansion into the smart home market.

### ***3. Rising demand for consumer electronics***

Consumer electronics is a key area in the IoT industry. Consumer IoT applications can range from personal fitness devices to high-end home automation applications. The rapid growth of the consumer electronics industry is driven by large population, which provides a large database of consumer information and enables high-quality research and development in consumer electronics. This leads to more new electronic products being released in the market and thus further boosts the consumer electronics industry as well as the IoT industry.

### ***4. Development of smart cities***

The IoT industry plays an important role in developing smart cities. A smart city refers to a city with intelligent and sustainable urban development with pervasive computing devices. Smart cities have been viewed as a key strategy to promote industrialisation, informatisation, and urbanisation.

Take China as an example, China is developing a smart grid power sector as part of the smart city establishment. In 2017, the national grid's smart meter coverage reached 99.03%. By utilising the elastic characteristics of power demand, it optimises the allocation of resources by guiding users to change the power consumption mode, reducing the power load for a certain period of time and responding to the power supply in order to ensure the stability of the power grid. The use of IoT in a smart grid power sector helps the country develop smart cities more efficiently.

### ***5. High demand for the Internet of Vehicles***

The Internet of Vehicles is a network of connected cars that share digital information between businesses, organizations, infrastructures, people, and things. Demand for the development of the Internet of Vehicles is high due to high vehicle ownership and an increasing demand for car consumption. The automotive market is expected to see a tremendous surge from 2015 to 2030, averaging growth rate close to 43% a year. The development of vehicle networking will be based on many things, including integrating wireless communication, intelligent navigation, parking assistance, intelligent security, hands-free voice recognition, energy saving, entertainment, audio and video, etc. The IoT industry is anticipated to grow as the Internet of Vehicles develops.



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## REGULATIONS

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### OVERVIEW

Our business operations are subject to respective supervisions and regulations from the PRC, Hong Kong and India governments. Below is a summary of laws, regulations and policies which are material to our Group:

### PRC LAWS AND REGULATIONS

Set out below is a summary of the most significant laws and regulations that affect our business and operations in the PRC. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to our PRC subsidiaries.

### LAWS AND REGULATIONS RELATING TO WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》)(the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**SCNPC**”) on 29 December 1993 and came into effect on 1 July 1994. It was revised for several times afterwards, and the latest version was implemented on 26 October 2018. According to the PRC Company Law, companies are classified into two categories, namely limited liability companies and limited companies by shares. The PRC Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares, unless otherwise specified in the relevant foreign investment laws and regulations.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 and amended by the PRC State Council (國務院) (the “**State Council**”) on 12 April 2001 and 19 February 2014, and the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprise (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Provisional Measures**”), which was promulgated on 8 October 2016 and lastly amended on 30 June 2018. According to the Provisional Measures, only filing is needed for the establishment and changes of the foreign-invested enterprises with no special administrative measures on the admission of foreign investors. The foreign-invested enterprises or their investors shall truly, accurately and completely provide the filing information and fill out the filing application commitment according to the Provisional Measures.

On 15 March 2019, the SCNPC promulgated the Foreign Investment Law of the PRC (《中華人民共和國外國投資法》), which will take effect on 1 January 2020 and replace the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), the Sino-Foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》) and the Sino-Foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) to

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become the legal foundation for foreign investment in the PRC. the Foreign Investment Law of the PRC sets out the definition of foreign investment and the framework for promotion, protection and administration of foreign investment activities.

Investment activities in the PRC by foreign investors are governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (《外商投資產業指導目錄 (2017年修訂)》) (the “**Catalog**”), which was promulgated jointly by the Ministry of Commerce of the PRC (商務部) (the “**MOFCOM**”) and the National Development and Reform Commission (國家發展和改革委員會) (the “**NDRC**”) on 28 June 2017. The Catalog divides industries into three categories in terms of foreign investment. Those categories are: “encouraged”, “restricted”, “prohibited”. Industries which are not listed on the Catalog shall be classified as the permitted industries. Our PRC subsidiaries are operating in the industries which are permitted industry as not to be listed in the Catalog. The NDRC and MOFCOM jointly promulgated the Special Management Measures for the Access of Foreign Investment (Negative List) (2019)(《外商投資准入特別管理措施(負面清單)(2019年版)》) on 30 June 2019, which took effect on 30 July 2019. The negative list has no restrictions on our business in the PRC.

### LAWS AND REGULATIONS ON OPERATION

#### General Administration of Mobile Phones Manufacturing and Trading

According to the Administrative Regulations for Compulsory Product Certification (《強制性產品認證管理規定》), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) (the “**AQSIQ**”) on 3 July 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified (the “**Compulsory Product Certification**”) and labeled with China Compulsory Certification mark (中國強制認證標誌). For products that are subject to Compulsory Product Certification, the state implements unified product catalogs (the “**3C Catalog**”), unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Pursuant to the First Batch Compulsory Product Certification Product Catalog (《第一批實施強制性產品認證的產品目錄》) promulgated by the AQSIQ and the Certification and Accreditation Administration of the PRC (中國國家認證認可監督管理委員會) on 3 December 2001, mobile user terminals and CDMA digital cellular mobile station are required to obtain the Compulsory Product Certification in order to be delivered, sold, imported or used.

Besides the Compulsory Product Certification, the seller of radio component products in mainland China is required to obtain the Radio Transmission Equipment Type Approval Certificate (無線電發射設備型號核准証) in accordance with the Radio Regulation of the PRC (《中華人民共和國無線電管理條例》), which was promulgated by the State Council and the Central Military Commission (中央軍事委員會) on 11 September 1993, and amended on 11 November 2016, and the Administrative Regulations on Manufacturing of Radio Transmission Equipment (《生產無線電發射設備的管理規定》), promulgated by the State Radio Regulation Committee (國家無線電管理委員會) and the State Bureau of Technical Supervision (國家技術監督局) (the predecessor of the AQSIQ) on 7 October 1997.



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In addition, the Administrative Measures for the Network Access of Telecommunications Equipment (《電信設備進網管理辦法》), which was amended by the Ministry of Industry and Information Technology (工業和信息化部) (the “MIIT”) on 23 September 2014 provide that the State applied the network access permit system to the telecommunications terminal equipment, radio communications equipment, and equipment relating to the network interconnection that is connected to public telecommunications networks. The telecommunications equipment subject to the network access permit system shall obtain the Telecommunications Equipment Network Access Permit issued by the MIIT (the Network Access Permit). Without the Network Access Permit, no telecommunications equipment is allowed to be connected to the public telecommunications networks for use nor sold on the domestic market. In the event of an application for the Network Access Permit, a production enterprise shall submit a testing report issued by a telecommunications equipment testing institution or a Compulsory Product Certification. In the event of an application for the network access permit for radio transmission equipment, a Radio Transmission Equipment Type Approval Certificate issued by the MIIT shall also be submitted.

### **Product Quality**

Product quality supervision in the PRC is generally governed by the Product Quality Law of the PRC (《中華人民共和國產品質量法》)(the “**Product Quality Law**”), which was promulgated on 22 February 1993 and lastly amended on 29 December 2018. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law. The State implemented a system of supervision and inspection of product quality, based mainly on a random inspection of products. Producers and sellers must not refuse product quality supervision and inspection that is carried out in accordance with law. Under the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller. In case of violations of the Product Quality Law, the responsible authorities have the right to impose fines on the violators, order them to suspend operation, and revoke their business licenses. In serious cases, even criminal liability may be incurred.

The Consumers Rights and Interests Protection Law of the PRC (《消費者權益保護法》) (the “**Consumers Protection Law**”) which promulgated by the SCNPC on 31 October 1993 and lastly amended on 25 October 2013 and became effective on 15 March 2014 protects consumers’ rights when they purchase or use goods and accept services. According to the Consumers Protection Law, a consumer or any other aggrieved party whose personal safety and property security are harmed by defective goods may seek compensation from the seller, or seek compensation from the manufacturer. Where the liability falls on the manufacturer, upon compensation by the seller, the seller shall have the right to recover the compensation from the manufacturer. Where the liability falls on the seller, upon compensation by the manufacturer, the manufacturer shall have the right to recover the compensation from the seller.

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### **Safe Production**

Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”) was promulgated by the SCNPC on 29 June 2002, came into effect on 1 November 2002 and was revised on 27 August 2009 and 31 August 2014. According to the Production Safety Law, business entities shall meet the work safety conditions prescribed by relevant laws, administrative regulations, and national or industry standards, set aside and use work safety expenses exclusively for improving production safety conditions. Violations of the Production Safety Law may result in the imposition of fines and penalties, the suspension of operation, an order to cease operation, and/or criminal liability in severe cases. In addition, production and operation entities shall supply their employees with protective articles that meet national or industrial standards and instruct them to wear or use such articles as required.

### **Import and Export of Goods**

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was promulgated by the SCNPC on 12 May 1994 and amended on 6 April 2004, 7 November 2016 and the Measures for the Archival Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) which was promulgated by the MOFCOM on 25 June 2004 and amended on 18 August 2016, foreign trade operators engaged in imports and exports of goods or technologies shall file records with the foreign trade department of the State Council or its authorized agency, unless otherwise stipulated by the laws, administrative regulations or the foreign trade department of the State Council. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》) promulgated by the SCNPC on 21 February 1989 and lately amended on 27 April 2018 and its implementation rules. According to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection. While the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

The Customs Laws of the PRC (the “**Customs Law**”) (《中華人民共和國海關法》) was promulgated by the SCNPC on 22 January 1987 and was respectively amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017. Pursuant to the Customs Law, unless otherwise stipulated, the declaration of import and export goods and payment of duties on them may be completed by consignees and consignors themselves, and such formalities may also be completed by representatives entrusted by the consignees and consignors and approved by and

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registered with the Customs. In addition, the consignor or consignee of the goods exported or imported and the Customs broker must register themselves for declaration activities with the Customs office. Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014 and amended on 20 December 2017 and 29 May 2018, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. The consignor or consignee of imported and exported goods shall register with local customs in accordance with the laws.

### **Environmental Protection**

The major laws and regulations in the PRC concerning environmental protection include: Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Evaluation of Environmental Effects Law of the PRC (《中華人民共和國環境影響評價法》), Prevention and Control of Water Pollution Law of the PRC (《中華人民共和國水污染防治法》), Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》), Prevention and Control of Environmental Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), Prevention and Control of Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), and Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), and Promotion of Cleaner Production Law of the PRC (《中華人民共和國清潔生產促進法》).

According to the aforesaid laws and regulations, the PRC has established an environmental impact assessment system for project construction, and the construction, expansion and operation of products manufacturing facilities are subject to the advance approval and acceptance of the completed environmental protection facility from the competent the PRC environmental authorities. For failure to obtain the advance approval and acceptance of the completed environmental protection facility, the enterprise may be ordered to cease the construction or operation of facilities, or make repairs within the time limit or be fined by the competent the PRC environmental authorities. The aforesaid laws and regulations also impose fees for discharge of waste substances, and impose fines and indemnity for the improper discharge of waste substances and serious environmental pollution. The PRC environmental authority may shut down any facility that fails to comply with the environmental protection laws and regulations at its discretion.

### **Fire Prevention**

Pursuant to the Fire Protection Law of the PRC (《中華人民共和國消防法》) promulgated by the SCNPC on 29 April 1998 and lastly amended on 23 April 2019, which formulated for the purposes of preventing fire disasters and reducing fire hazards, strengthening emergency rescue operations, protecting personal and property safety and safeguarding public security. Fire brigades of public security agencies shall carry out supervision and inspection of compliance of fire services laws and regulations by enterprises. The fire brigade of a public security agency shall notify the relevant organizations or individuals of hidden fire hazards discovered in fire services supervision and inspection to forthwith adopt measures to eliminate the hidden hazards; where public security

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may be seriously compromised if the hidden hazards are not promptly eliminated, the fire brigade of the public security agency shall adopt temporary seizure measures for the hazardous location or site pursuant to the provisions. Where a construction project which is required by law to carry out fire control acceptance inspection failed to undergo fire control acceptance inspection or failed to pass fire control acceptance inspection, the project shall be prohibited to be put into use; other construction projects which are found to be unqualified in random inspection conducted pursuant to the law shall cease to be put into use.

### **Overseas Investments**

Pursuant to the Measures for the Administration of Overseas Investment of Enterprises (《企業境外投資管理辦法》), which was promulgated by the National Development and Reform Commission on 26 December 2017, effective as at 1 March 2018, a PRC registered enterprise shall apply for approval, registration for the overseas investment projects, report the relevant information to the relevant authorities and be cooperative in their supervision and inspection.

On 6 September 2014, the MOFCOM promulgated the Administrative Measures on Overseas Investments (《境外投資管理辦法》), the MOFCOM and the provincial commerce authorities shall implement filing and approval respectively based on different circumstances of overseas investments of enterprises. Overseas investments of enterprises which involve sensitive countries and regions and sensitive industries shall be subject to approval. Other overseas investments of enterprises shall be subject to filing.

### **M&A and Overseas Listing**

On 8 August 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the China Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”), promulgated the M&A Rules, a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and revised on 22 June 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in the PRC, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. Merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or natural person in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or natural person shall be subject to examination and approval by the MOFCOM.

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### Foreign Exchange

The principal regulation governing foreign exchange in the PRC are the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996 and subsequently amended on 14 January 1997 and on 1 August 2008. Under these rules, foreign exchange receipts and payments under current account items shall be based on true and legitimate transactions. Foreign exchange payments under current account items shall, pursuant to the administrative provisions of the foreign exchange control department of the State Council on payments of foreign currencies and purchase of foreign currencies, be made using self-owned foreign currency or foreign currency purchased from financial institutions engaging in conversion and sale of foreign currencies by presenting the valid documentation. Overseas organizations and overseas individuals making direct investments in the PRC shall, upon approval by the relevant authorities in charge, process registration formalities with the foreign exchange control authorities. Domestic organizations and domestic individuals making direct investments overseas or engaging in issuance and trading of quoted securities or derivatives overseas shall process registration formalities pursuant to the provisions of the foreign exchange control department of the State Council. Where the State stipulates that prior approval by or filing with the relevant authorities in charge is required, the approval or filing formalities shall be processed prior to foreign exchange registration formalities.

On 4 July 2014, State Administration of Foreign Exchange of the PRC (國家外匯管理局) (the “SAFE”) promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investment by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. Under the SAFE Circular No. 37, a resident in mainland China must register with the local SAFE branch before he or she contributes assets or equity interests in an offshore special purpose vehicle (the “SPV”), that is directly established or indirectly controlled by the domestic resident for the purpose of conducting investment or financing; and in the event the change of basic information of the registered offshore SPV such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, pursuant to the Notice of SAFE on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “Notice No. 13”), which was promulgated on 13 February 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with Notice No. 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

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Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

On 19 November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “SAFE Circular 59”), which became effective on 17 December 2012 and were amended on 4 May 2015. SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to SAFE Circular 59, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE’s approval.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), which came into effect on 1 June 2015. According to SAFE Circular 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis, a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business. The capital of an foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes: (a) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (b) directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations; (c) directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and (d) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

### **Dividend Distribution**

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》), as amended in 1999, 2004, 2005, 2013 and in 2018, the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) and its Implementation Rules. Under the current regulatory regime in the



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PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC enterprise is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC enterprise shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

### **Employment and Social Welfare**

#### ***The Labour Contract Law***

The Labour Law of the PRC (《中華人民共和國勞動法》) which came into effect on 1 January 1995 and lastly amended on 29 December 2018 stipulates general provisions with regard to labour contracts, working hours, wages, occupational safety and health, special protection for female staff and juvenile workers, vocational training, social insurance and welfare, and settlement of labor disputes. Enterprises failing to comply with the Labour Law of the PRC may be subject to warnings, fines, order to pay compensation, and cancellation of business license.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) which promulgated on 29 June 2007 and amended on 28 December 2012 and the Implementation Regulations on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated and implemented on 18 September 2008 by the State Council, provide that a written labour contract shall be concluded for the establishment of a labour relationship. Labour contracts concluded pursuant to the law shall be legally binding and the employers and the workers shall perform the obligations stipulated in the labour contracts. When recruiting a worker, the employer shall truthfully notify the worker of the job duties, working conditions, work premises, occupational hazards, work safety and health conditions, labour remuneration and any other information in which the worker is interested to know. Employers shall promptly pay labour remuneration to workers in full amount pursuant to the stipulations of the labour contract and the provisions of the State.

#### ***Social Insurance and Housing Provident Fund***

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended on 29 December 2018, employers are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance in accordance with the rates provided under the relevant regulations and shall withhold the social insurance that should be assumed by the employees. Employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.



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Under the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), promulgated by the State Council on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers must register with applicable housing provident fund management centers and establish a special housing provident fund account in an entrusted bank. Both employers and their employees are required to contribute to the housing funds. The subsequent late registration or no registration may be subject to the fine above RMB10,000 and below RMB50,000. Where, in violation of the provisions of these Regulations, an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

### LAWS AND REGULATION ON PROPERTIES

#### Real Estate

According to the Property Right Law of the PRC (《中華人民共和國物權法》) promulgated on 16 March 2007 and the Interim Regulation on Real Estate Registration (《不動產登記暫行條例》) issued on 24 November 2014 and amended on 24 March 2019, the state implement a unified system of registration for immovable property. The certificate of ownership of an immovable property shall be proof of a right holder's entitlement to right of the immovable property. An owner shall have the right to possess, use, benefit and dispose of its immovable property pursuant to law.

#### Intellectual Property Rights

##### *The Trademark Law*

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and lastly amended on 23 April 2019 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on 3 August 2002 and amended on 29 April 2014 (《中華人民共和國商標法實施條例》). In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for

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registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### *The Patent Law*

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the SCNPC, and its Implementation Rules (《中華人民共和國專利法實施細則》) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The PRC patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### *The Copyright Law*

The Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture. Where a work is organised by a legal person or any other organisation, created on behalf of the legal person or the organisation, and for which the legal person or the organisation bears responsibility, the legal person or the organisation shall be deemed as the author.

The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “**Software Copyright Measures**”) promulgated by the National Copyright Administration on 20 February 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China (the “**CPCC**”) is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (《計算機軟件保護條例》).

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### *Domain Names*

The MIIT promulgated the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) on 24 August 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. Where there is a change in the contact or other information of the domain name holder, the holder shall update the information to the domain name registration service institution within 30 days from the change.

### **LAWS AND REGULATIONS ON TAXATION**

#### **Enterprise income tax**

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was promulgated by the PRC National People’s Congress on 16 March 2007, effective from 1 January 2008 and was amended on 24 February 2017 and 29 December 2018, and the Regulations for the Implementation of the Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》)(collectively, the “**EIT Law**”), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, and was amended on 23 April 2019, enterprises are classified into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside the PRC at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China or has an establishment or place of business in the PRC but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside mainland China at the reduced rate of enterprise income tax of 10%.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on 1 January 2008 and amended on 29 January 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the “website for the administration of accreditation of high-tech enterprises”. Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be cancelled as of the year of change in the name or any other condition.

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The Notice on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), which was promulgated by the Ministry of Finance of the PRC (中華人民共和國財政部) (the “MOF”) and the SAT and effected on 1 January 2011 and the Notice on Issues Relating to the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) promulgated by the MOF, the SAT, the NDRC and the MIIT on 4 May 2016, provide that, upon certification, newly established integrated circuit design enterprises and eligible software enterprises shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before 31 December, 2017.

The Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses (《關於完善研究開發費用稅前加計扣除政策的通知》) was promulgated by the MOF, the SAT and the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) (the “MOST”) on 2 November 2015, and came into effect on 1 January 2016. Where the research and development expenses, which are actually incurred by an enterprise when it conducts any research and development activities but do not constitute and be amortized as intangible assets, are recorded into the current loss and profit, 50% of such expenses incurred in this year shall be deducted from the taxable income in the same year on an actual basis as required. If any intangible assets are constituted, such expenses shall be amortized at 150% of the costs of the intangible assets before tax payment.

### **Value-added tax**

The Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993 and came into force on 1 January 1994 which were subsequently amended on 10 November 2008, 6 February 2016 and 19 November 2017, The Implementation Rules of the Interim Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) were promulgated by the MOF and became effective on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011 (collectively, the “VAT Law”). The VAT Law set out that all enterprises or individuals engaging in sales of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. For the sales of goods, services or importation of goods by the tax payer, the rate of value-added tax is 17%; for the sales of services and intangible assets by the tax payer, the rate of value-added tax is 6%. Pursuant to the Circular on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》), which was promulgated by the MOF and the SAT on 4 April 2018 and came into effect on 1 May 2018, where a VAT taxpayer engages in taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% tax rate shall be adjusted to be 16%. Pursuant to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》, [2019] No.39) issued jointly by the Ministry of Finance, the SAT and the General Administration of Customs on 1 April 2019 and came into effect on the same date, the previous applicable tax rates of 16% was further adjusted to 13%.

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### **Income Tax on Share Transfer of Non-resident Enterprise**

Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) promulgated by the SAT and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the EIT. Indirect transfer of PRC taxable properties shall mean transactions of non-resident enterprises which are carried out through transfer of equity of enterprises aboard that directly or indirectly hold PRC taxable properties (not including the Chinese resident enterprises registered aboard, hereinafter referred to as “**enterprises aboard**”) and other similar equities (hereinafter referred to as “**equity**”) and cause the concrete results same as or similar to that of direct transfer of PRC taxable properties, including the circumstance that the restructuring of non-resident enterprises causes changes of shareholders of enterprises aboard. Non-resident enterprises that indirectly transfer PRC taxable properties are referred to as equity transferor.

### **Transfer pricing**

Pursuant to the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)) (the “**STA Rules**”), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are regarded as related party transactions. According to the EIT Law and STA Rules, related party transactions should comply with the arm’s length principle (獨立交易原則) and if the related party transactions fail to comply with arm’s length principle results in the reduction of the enterprise’s taxable income, the tax authority has the power to make an adjustment following certain procedures.

Pursuant to such laws and regulations and since 2008, companies engaging in related party transactions (domestic or overseas) shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the supervising tax authority in its EIT annual return.

Furthermore, according to the Bulletin of the State Administration of Taxation on Issues Relating to the Enhancement of the Declaration of Related Party Transactions and Administration of Contemporaneous Documentation (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告), which is applicable to the year of 2016 and the subsequent accounting years, enterprises that meet certain conditions should prepare, maintain and submit upon request of the tax authorities local file, master file and special issue file of transfer pricing contemporaneous documentation which specifically includes, among other things, transfer pricing policies and benchmark references with comparable unrelated parties. However, enterprises with only domestic related party transactions are not required to prepare the abovementioned transfer pricing contemporaneous documentation.



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The SAT have subsequently published an announcement on issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (特別納稅調查調整及相互協商程序管理辦法) (the “**STA Measures**”) which came into effect from 1 May 2017. According to the STA Measures, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of connected transactions, management of contemporaneous documentation, profit level monitoring and other means. When any enterprises are found to have special tax adjustment risks, they will send a Notice of Tax Matters to the enterprise, suggesting the existence of a tax risk. An enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks. The tax authorities may also carry out special tax investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

### **Dividend Withholding Tax**

According to the EIT and its Implementation Rules, generally a withholding tax rate of 10% will be imposed on dividends paid to non-PRC resident investors. The enterprise income tax rate on the dividends may be reduced pursuant to a tax treaty between the Mainland and the jurisdictions in which non-PRC investors reside.

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Arrangement**”) concluded on 21 August 2006, if a Hong Kong resident enterprise is determined by the competent tax authority in mainland China to have satisfied the relevant conditions and requirement under the Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a mainland China resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. The Notice on Issues relating to the Implementation of the Dividend Provision in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice 81**”) was promulgated on 20 February 2009 by the SAT. The Notice 81 reaffirms the qualification for dividend recipient to enjoy tax preferential of being levied at 5% rate as following: (i) the recipient of the dividend must be a corporation; (ii) the recipient’s ownership in the Chinese company must meet the prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (iii) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential. The shareholders of our PRC subsidiaries are established in Hong Kong and hold 100% shares of our PRC subsidiaries, the shareholders of our PRC subsidiaries could enjoy tax preferential of being levied at 5% rate after gaining the approval from the tax authorities.

According to the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatments under Tax Agreements (《非居民納稅人享受稅收協定待遇管理辦法》), which was promulgated on 27 August 2015 and came into force on 1 November 2015, where non-resident taxpayers are eligible for the treatment under agreements, they may, when filing tax returns, or when withholding agents make withholding declaration, enjoy the treatment under agreements at their own discretion.

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### HONG KONG LAWS AND REGULATIONS

#### Laws on Import and Export

Pursuant to section 9 of the Telecommunication Ordinance (Chapter 106 of the Laws of Hong Kong) (the “**Telecommunication Ordinance**”), save under and in accordance with a permit granted by the Communications Authority, no person shall import into Hong Kong or export therefrom any radiocommunications transmitting apparatus unless he is the holder of a licence authorising him to deal in the course of trade or business in such apparatus.

Further, pursuant to section 8(1)(c) of the Telecommunication Ordinance, no person shall in Hong Kong or on board any ship, aircraft or space object that is registered or licensed in Hong Kong deal in the course of trade or business in apparatus or material for radiocommunications or in any component part of any such apparatus or in apparatus of any kind that generates and emits radio waves whether or not the apparatus is intended, or capable of being used, for radiocommunications unless with the appropriate licence granted or created by the Communications Authority. However, pursuant to section 5(1)(b)(ii) of the Telecommunications (Telecommunications Apparatus) (Exemption from Licensing) Order (Chapter 106Z of the Laws of Hong Kong), no such licence shall be required if the apparatus is used or is capable of being used (i) other than as a mobile earth station; and (ii) meets the relevant technical criteria set out in the Telecommunication Ordinance and tolerates interference from other telecommunications apparatus or any telecommunications system authorized under the Telecommunication Ordinance.

#### Transfer Pricing

Pursuant to section 20 of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”), where a Hong Kong resident person (including but not limited to a corporation and partnership) derives less than the ordinary profits which might be expected to be assessable to tax in Hong Kong from a business conducted with a closely connected non-Hong Kong resident, the business done by the non-resident in pursuance of his/her connection with the resident shall be deemed to be carried on in Hong Kong, and the non-resident shall be assessable to tax in respect of profits from such business in the name of the resident as if the resident was his agent.

A person will be regarded as closely connected with another person under section 20(1)(a) of the IRO when the Commissioner of the Hong Kong Inland Revenue Department (“**IRD**”) considers that such persons are substantially identical, or that the ultimate controlling interest of each is owned, or deemed to be owned, by the same person or persons. The controlling interest of a company is deemed under section 20(1)(b) of the IRO to be determined by the beneficial owners of its shares, whether the shares are held directly or through nominees. Shares in a company held by a holding company are deemed, by section 20(1)(b) of the IRO, to be held by the shareholders of the holding company.



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Assessors of the IRD are empowered under section 61 of the IRO to disregard certain transactions or dispositions and assess the taxpayer accordingly. With regard to a transaction which has, or would have had the effect of conferring a tax benefit on a person, under section 61A of the IRO, an assistant commissioner of the IRD, having regard to the background and effect of the transaction, has the power to assess the liability to tax of the relevant person as if the transaction or any part thereof had not been entered into or carried out or in such other manner as the assistant commissioner considers appropriate to counteract the tax benefit which would otherwise be obtained.

On 13 July 2018, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Bill**”) was gazetted and has become effective. Section 20 of the IRO was repealed as a result of the Bill becoming effective. The Bill includes significant changes to codify transfer pricing regulations in Hong Kong, which includes a transfer pricing regulatory framework and documentation requirement, implements the minimum standards from the latest requirements of Organisation for Economic Co-operation and Development on the Base Erosion and Profit Shifting (BEPS) package and aligns the provisions in the IRO with international tax requirements. According to the Bill, the arm’s length principle is the fundamental transfer pricing rule in Hong Kong.

The Bill empowers the IRD to impose transfer pricing adjustments on income or expense arising from non-arm’s length transactions between associated persons which resulted in a potential Hong Kong tax disadvantages to the IRD. Where a transaction between two related persons does not comply with the arm’s length principle and has created tax advantage to the taxpayer, the IRD is now empowered to adjust the profits or losses of that person.

The Bill also implements a three tiered transfer pricing documentation requirements including master file, local file and country-by-country report. A person engaged in related party transactions (the “**RPT**”) may exempt from the preparation of transfer pricing documentation if its business size/ RPT does not exceed the stipulated thresholds.

The fundamental transfer pricing rule applies retrospectively to year of assessment on or after 1 April 2018.

For FY2016 to FY2018, the DIPN No. 45-Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the IRD in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (countries entered into tax arrangements with Hong Kong include the PRC).

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### INDIAN LAWS AND REGULATIONS

#### Laws and Regulations on Operation

##### *Importer Exporter Code*

Pursuant to the Foreign Trade (Development and Regulation) Act, 1992 (the “**Foreign Trade Act**”), no person is permitted to make any import or export except under an importer-exporter code (an “**IEC**”) number granted by the Director General of Foreign Trade (the “**DGFT**”). Section 8(1)(a) of the Foreign Trade Act provides that any contravention of any law relating to central excise, customs, foreign exchange or other economic laws as may be notified by the Central Government is a ground for the suspension/cancellation of the IEC number.

The obligation of obtaining an IEC number, in our case, rests with the Group’s customers. The Group is not legally obligated to obtain an IEC number since it neither imports any goods into India, nor does it export any goods out of India.

#### Laws and Regulations on Product Safety

##### *International Mobile Equipment Identity and Electronic Serial Number*

The Groupe Speciale Mobile Association (the “**GSM Association**”) is an association which focuses on ensuring mobile services work globally, thereby enhancing their value to individual users and national economies. Membership to this association is voluntary and upon payment of a stipulated amount of fee. Majority of the countries which use GSM technology are a member of this association. In this regard, the GSM Association issued a non-binding IMEI Allocation and Approval Guidelines dated October 31, 2013, whereby it laid down guidelines for members part of the GSM Association with respect to allocation of a unique international mobile equipment identity (the “**IMEI**”) identifying an individual mobile station in a GSM network. The mobile equipment manufacturer which manufactures mobile devices under its own brand name, and/or the brand owner, is required to register with the GSM Association and obtain a ‘Type Allocation Code’ (“**TAC**”) for each different device model. The TAC is, in-turn, used to create the IMEI code. The IMEI code consists of a number of fields totaling to 15 digits. All digits have the range of zero to nine coded as a binary coded decimal. The GSM Association maintains a unique system known as the IMEI database which is global central database containing basic information on the IMEI ranges of GSM devices that are in use across the GSM networks of the world. This IMEI database is also activated and updated every 15 days in the equipment identity register (“**EIR**”) of telecom service providers.

The Department of Telecommunications, Ministry of Communications and Information Technology, Government of India, issued a directive (No. 20-40/2006-BS-III(Pt.)/(Vol. I) dated October 6, 2008, in the interest of national security to all access service providers to make provision for an EIR so that all cellular phones without IMEI or ESN or invalid IMEI or ESN are not processed and rejected.

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The Department of Commerce, Ministry of Commerce and Industry, Government of India has issued a notification (No. 14/2009–2014, New Delhi) on October 14, 2009 which prohibits import of ‘Mobile Handsets’ (classified under ITC (HS) Code ‘8517’) without IMEI numbers or with all-Zeroes IMEI.

As the Group neither manufactures mobile devices under its own brand name nor is the brand owner of the mobile devices it manufactures, it is not required to register with the GSM Association and obtain a TAC.

### *Electronics and Information Technology Goods (Requirements for Compulsory Registration) Order*

The Department of Electronics and Information Technology, Ministry of Communications and Information Technology, Government of India has issued Electronics and Information Technology Goods (Requirements for Compulsory Registration) Order, 2012 dated 7 September 2012 pursuant to the powers conferred on it by the Bureau of Indian Standards Act, 1986 (“**Registration Order**”). It stipulates that no person shall by himself or through any person on his behalf manufacture or store for sale, import, sell or distributive goods which do not conform to the specified standards and do not bear a self-declaration after obtaining registration from the Bureau of Indian Standards (“**BIS**”), a statutory body in India established for the harmonious development of the activities of standardization, marking and quality certification of goods and for matters connected therewith or incidental thereto.

The Government of India is in the process of enforcing further higher standards for electromagnetic fields radiation for mobile handsets. Government regulations stipulate that specific absorption rate (“**SAR**”) level for mobile handsets shall be limited to 1.6 W/Kg, averaged over one gram of human tissue, with effect from September 1, 2012. SAR measurements are to be carried out in accordance with the IS/IEC 62209–1 standard. Mobile handset manufactured and sold in India or imported from other countries shall be checked for compliance of SAR level. All cell phone handsets sold in the market in India shall comply with relevant standards of the BIS and shall be with hand free devices. SAR value information of the mobile handset shall be made available on the manufacturer’s website and in the handset’s manual. Further, the information on SAR values shall be made available to the customer at the point of sale.

### **Laws and Regulations on Taxation**

#### *Corporate Tax and Transfer Pricing*

Corporate Tax is a type of the direct tax paid by the companies registered under Companies Act of India (Companies Act, 1956 or Companies Act, 2013) on the net income that it makes from its businesses. All domestic and foreign companies are liable to pay corporate tax to the Government of India under the extant Direct Tax laws in the country (Income Tax Act, 1961 and the subsequent Rules). While a domestic company (defined to mean a company registered under the Indian Companies Act as well a company registered abroad having control and management wholly situated in India) is liable to pay tax at the rate of 25% of the net income of the company, if the annual turnover of the company is up to INR2,500,000,000 and a tax at the rate of 30% of the net income of

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the company if the annual turnover of the company is more than INR2,500,000,000, a foreign company (defined to mean a company not registered under the Indian Companies Act and has control and management located outside India) is liable to pay tax at the rate of 40% on the income accrued or received in India. This is besides other cess and direct taxes, including Health and Education Cess, Minimum Alternate Tax (MAT), Dividend Distribution Tax (DDT) which companies are required to pay under the extant tax laws in the country.

Similarly, the Indian tax laws also mandate arm's length pricing in transactions between associated enterprises under common ownership or control, particularly in relation to international transactions, i.e. transactions between two or more associated entities involving, inter-alia, sale, purchase or lease of any tangible property. Relationships falling with the category of associated entities include direct or indirect participation through intermediaries in the management, control or capital of an enterprise by another enterprise.

### *Anti-dumping and Customs Duty*

The Customs Tariff Act, 1975 as amended from time to time, and (i) the Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995, and (ii) Customs Tariff (Identification, Assessment and Collection of Countervailing Duty on Subsidized Articles and for Determination of Injury) Rules, 1995 framed thereunder form the legal basis for anti-dumping and anti-subsidy investigations and for the levy of anti-dumping and countervailing duties. The Customs Tariff Act, 1975 stipulates that where any article is exported from any country or territory to India at less than its normal value, then, upon the importation of such article into India, the central government of India may impose an anti-dumping duty not exceeding the margin of dumping in relation to such article. Notably, the Government of India has recently introduced an import duty of 10% on all populated, loaded or stuffed printed circuit boards imported in India. This decision has been effectuated pursuant to a notification issued under the Customs Tariff Act, 1975.

The normal value of an article is the comparable price at which the articles under complaint are sold, in the ordinary course of trade, in the domestic market of the exporting country or territory. If the normal value cannot be determined by means of the domestic sales, the following two alternative methods may be employed to determine the normal value: (a) comparable representative export price to an appropriate third country, and (b) constructed normal value, i.e. the cost of production in the country of origin with reasonable addition for administrative, selling and general costs and reasonable profits. A dumping investigation can normally be initiated only upon receipt of a written application by or on behalf of the "domestic industry", i.e. the Indian producers of like articles as a whole.

The Customs Act, 1962 is the basic legislation for levy and collection of customs duty in India. It contains various provisions relating to imports and exports of goods and merchandise as well as baggage of persons arriving in India. The main purpose of Customs Act, 1962 is the prevention of illegal imports and exports of goods.

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As the Group is not responsible for the import of its products into India, the compliance obligations under the Customs Act does not extend to the Group.

### ***Goods and Services Tax***

The Constitution (One Hundred and First Amendment Act) 2016 (“**GST Act**”) aims to implement a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It replaces all indirect taxes levied on goods and services by the Indian Central and State governments thereby giving effect to the “one nation, one tax” policy of the Government of India.

The GST Act prescribes that import of goods into the territory of India would be deemed to be an inter-state supply, thereby triggering the Inter-State Goods and Services Tax (“**IGST**”). As a consequence, the computation of customs duty under the GST regime has two components, i.e. basic customs duty and IGST. The levy of IGST subsumes the current levy of countervailing duty and additional duty of customs. Additionally, other duties such as anti-dumping duties, safe guard duties, etc. continues to be levied. The levy of IGST is collected by customs authorities at the time of import into India and is payable for each transaction.

In order to effectuate the GST Act, the Central GST Act, 2017, the Union Territory GST Act, 2017, the Integrated GST Act, 2017 and the GST (Compensation to States) Act, 2017 along with the subsequent rules respectively have been passed by the Parliament of India.

### **Laws and Regulations on Consumer Protection**

Product liability in India is mainly governed by the Consumer Protection Act, 1986 (the “**CPA**”), by imposing liability on manufacturers, wholesalers, distributors and vendors for injury to a person or property caused by dangerous or defective products. The CPA imposes strict liability on a manufacturer, in case of supply of defective goods by him, and a service provider, in case of deficiency in rendering of its services. The terms “defect” and “deficiency” are given a broad interpretation and cover any kind of fault, imperfection or shortcoming in the quality, quantity, potency, purity or standard. “Manufacturer” has been described as a person who makes or manufactures any goods or parts or does not make or manufacture any goods but assembles parts thereof made or manufactured by others or puts or causes to be put his own mark on any goods made or manufactured by any other manufacturer.

Given that the Group merely procures manufacturing of devices for its customers and such devices are sold in India under the customer’s brand-name, the risk that the Company (or the Group) being regarded as a ‘manufacturer’ under the CPA is remote.

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### SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

#### U.S.

##### *Treasury regulations*

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. “Primary” U.S. sanctions apply to “U.S. persons” or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and “secondary” U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity’s domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies’ foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens (“green card” holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to “block” (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorization or license from OFAC.

OFAC’s comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

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## REGULATIONS

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### **United Nations**

The United Nations Security Council (the “UNSC”) can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

### **European Union**

Under European Union sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

### **Australia**

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.



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## REGULATIONS

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### **Applicability to our sales in Russia, Ukraine and Egypt**

The United States, the European Union, the United Nations, acting through the Security Council, Australia and a number of other countries and governmental organizations impose a variety of sanctions measures that limit parties' ability to transact with certain persons, entities or organizations in Russia. Other sanctions imposed by these regulators target specific sectors of the Russian economy, such as the financial, energy, and defense sectors. These sanctions have been implemented for a number of reasons articulated by the sanctions regulators, including in response to Russia's 2014 invasion of Ukraine, interference in the United States and other countries recent elections, malicious cyber-enabled activities, human rights abuses, use of a chemical weapon, weapons proliferation, illicit trade with North Korea, and support to Syria. Ukraine and Egypt are also subject to targeted sanctions, although less extensive than those applicable to Russia. The area known as Crimea, which is located in area between Russia and Crimeia, is subject to very extensive sanctions implemented when it was deemed to be annexed by Russia in 2014. Comprehensive sanctions against Crimea were imposed by the United States, Canada, the European Union and other European countries (including Ukraine) that, among other things, prohibit the sale, supply, transfer, or export of goods and technology in several sectors, including services directly related to tourism and infrastructure. They also place various transportation restrictions on Crimeia, including listing various ports where ships cannot dock.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### BUSINESS MILESTONES

Our Group commenced business in 2009 and was led by Mr. Li and Mr. Xiong, both Directors have over 15 years of relevant experience in the mobile communications industry. Under their leadership, we have been strategically focusing our sales to the Emerging Asia as our Directors believed that the macroeconomic conditions of Emerging Asia (including huge population, low mobile phone penetration rates and the gradual improvement in the living standards of Emerging Asia) would stimulate the demand for mobile phones, which would in turn support the sales growth of our Group. Further, if we can grasp a first-mover advantage, the market competitions in Emerging Asia would be relatively less intense as compared with other developed countries. Accordingly, since incorporation, our Group has been devoting significant efforts into the exploration of the Emerging Asian markets and our Group has also been consistently building up its production scale by (i) setting up our first production plant in 2014; (ii) relocating to a larger production plant in 2015; and (iii) setting up its first SMT production plant in 2018.

#### Our key business milestones

The key business milestones in the development of our Group up to the Latest Practicable Date are set out below:

Year	Event
2009	<ul style="list-style-type: none"><li>● Shenzhen Sprocomm, one of our principal subsidiaries, was established</li></ul>
2010	<ul style="list-style-type: none"><li>● We commenced to offer feature phones on ODM basis to a top mobile phone supplier in India</li></ul>
2011	<ul style="list-style-type: none"><li>● To keep pace with the technological development and envisaging the rising popularity of smartphones, our R&amp;D team successfully designed and realised PCBAs (a core module for a mobile phone) for smartphones</li></ul>
2012	<ul style="list-style-type: none"><li>● We launched our first batch of ODM smartphones</li></ul>
2013	<ul style="list-style-type: none"><li>● We started to offer PCBAs for mobile phones to top local mobile phone supplier in India</li></ul>
2014	<ul style="list-style-type: none"><li>● We commenced our own production plant for mobile phones with 6 assembly lines in Shenzhen with a total GFA of 2,050 sq.m.</li><li>● Shenzhen Sprocomm was accredited with High Technology Enterprise Certificate for the first time and was entitled to enjoy 15% enterprise income tax rate for FY2016 and FY2017</li></ul>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- 2015
  - After considering the smooth operation of our first production plant in 2014, and given our management’s foresight on the increasing number of consumers switching from feature phones to smartphones in 2015 in India market, we relocated our production plant to the current address of our Shenzhen Plant with a total GFA of 13,560 sq.m. which enable us to expand our production scale to equip with ten mobile phone assembly lines at annual production capacity of 15.8 million units of mobile phones in FY2018
  - Guangming Branch of our Shenzhen Sprocomm was granted the GB/T 19001-2008/ISO 9001:2008 certificate for its quality management system
  - Guangming Branch of our Shenzhen Sprocomm was granted the GB/T 24001-2004/ISO 14001:2004 certificate for its quality environmental management system
- 2016
  - We established Guizhou Sprocomm to set up a R&D centre
  - Shanghai Sprocomm was awarded the Software Enterprise Certificate and was entitled to be exempted from enterprise income tax for FY2016 and FY2017
- 2017
  - We launched our IoT related products which generated revenue of over RMB100 million in FY2017
- 2018
  - We established our Luzhou Plant with a total GFA of 19,871 sq.m., equipped with four SMT lines for PCBA production and production capacity of 2.5 million pieces of PCBA for mobile phones

### HISTORY AND CORPORATE DEVELOPMENT

The history of our Group traces back to September 2009 when Shenzhen Sprocomm, our main operating subsidiary, was established by Mr. Li, Mr. Xiong and Mr. Liu Wei, an Independent Third Party, as a limited liability company. Mr. Liu Wei has experience in computer and electronic technology industries and is an acquaintance of Mr. Li and Mr. Xiong. At the time when Shenzhen Sprocomm was established, it was owned as to 45.71% by Mr. Li, 40% by Mr. Liu Wei and 14.29% by Mr. Xiong respectively. Mr. Li, Mr. Xiong and Mr. Liu Wei had financed the establishment of Shenzhen Sprocomm by their own savings. For details, please see “Subsidiaries in the PRC — Shenzhen Sprocomm” in this section below.

The following describes the corporate history of our Company, our intermediate holding companies in the BVI and Hong Kong and our subsidiaries in the PRC, Hong Kong and India.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 August 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each and is the holding company of our subsidiaries. As at the Latest Practicable Date, our Shares were owned as to 49.33% by Leap Elite (274,050 Shares), 40.67% by Beyond Innovation (225,950 Shares), and 10% by JZ Capital (55,556 Shares) respectively.

As a result of the Reorganisation, our Company through Grace Kirin and HK Sprocomm indirectly holds the equity interests in our subsidiaries, which are in the PRC, Hong Kong and India. For further details, please see “Reorganisation” in this section below.

### **Intermediate holding subsidiary in the BVI**

#### ***Grace Kirin***

Grace Kirin was incorporated in the BVI on 28 June 2018 as a company with limited liability authorised to issue a maximum of 50,000 shares of US\$1.00 per share. On the date of incorporation, one share of Grace Kirin were issued, credited as fully paid to our Company at a subscription price of US\$1.00. Since then and as at the Latest Practicable Date, Grace Kirin is a direct wholly-owned subsidiary of our Company.

Grace Kirin serves as an intermediate holding company.

### **Intermediate holding subsidiary in Hong Kong**

#### ***Sprocomm Intelligence HK***

Sprocomm Intelligence HK was incorporated in Hong Kong on 27 August 2018 as a limited liability company. On the date of incorporation, 10,000 ordinary shares of Sprocomm Intelligence HK were allotted and issued, credited as fully paid to Grace Kirin at a subscription price of HK\$1.00 per share.

Sprocomm Intelligence HK serves as an intermediate holding company.

### **Subsidiaries in the PRC**

#### ***Shenzhen Sprocomm***

On 16 September 2009, Shenzhen Sprocomm was incorporated in PRC as a limited liability company. Shenzhen Sprocomm is one of our operating subsidiaries, which is principally engaged in offering mobile phones on ODM basis targeting emerging market and has commenced business since 2010.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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On the date of its incorporation, Shenzhen Sprocomm was owned as to 45.71%, 40% and 14.29% by Mr. Li, Mr. Liu Wei and Mr. Xiong, respectively, with a registered capital of RMB3.5 million. Since its incorporation, there had been several transfers of equity interest amongst the then shareholders of Shenzhen Sprocomm until Mr. Liu Wei ceased to hold any equity interest in Shenzhen Sprocomm on 7 September 2012.

The following table sets forth the shareholding structure of Shenzhen Sprocomm as at 7 September 2012 after the abovementioned transfers:

<b>Name of shareholders</b>	<b>Capital contribution</b> <i>(RMB million)</i>	<b>Approximate shareholding percentage</b>
Mr. Li	1.91835	54.81%
Mr. Xiong	<u>1.58165</u>	<u>45.19%</u>
<b>Total</b>	<b><u>3.50</u></b>	<b><u>100.00%</u></b>

Since September 2012, there have been several capital increases in Shenzhen Sprocomm. The registered capital of Shenzhen Sprocomm increased to RMB10 million on 30 August 2013 and then to RMB50 million on 14 February 2017. On 18 December 2017, the increased capital of RMB40 million on 14 February 2017 was fully paid by Mr. Li and Mr. Xiong on a pro rata basis pursuant to their shareholdings in Shenzhen Sprocomm.

The following table sets forth the shareholding structure of Shenzhen Sprocomm on 18 December 2017:

<b>Name of shareholders</b>	<b>Capital contribution</b> <i>(RMB million)</i>	<b>Approximate shareholding percentage</b>
Mr. Li	27.405	54.81%
Mr. Xiong	<u>22.595</u>	<u>45.19%</u>
<b>Total</b>	<b><u>50.00</u></b>	<b><u>100.00%</u></b>

On 21 December 2017, Mr. Li transferred 2.7405% equity interest in Shenzhen Sprocomm to Chunfen Investment and 5.481% equity interest in Shenzhen Sprocomm to Xiazhi Investment at a consideration of RMB1,370,250 and RMB2,740,500, respectively (the “**Chunfen Transfer**”). On the same day, Mr. Xiong transferred 2.2595% equity interest in Shenzhen Sprocomm to Chunfen Investment and 4.519% equity interest in Shenzhen Sprocomm to Xiazhi Investment at a consideration of RMB1,129,750 and RMB2,259,500, respectively. The considerations were determined with reference to the registered capital of Shenzhen Sprocomm (the “**Xiazhi Transfer**”).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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The following table sets forth the shareholding structure of Shenzhen Sprocomm after the above transfer:

Name of shareholders	Capital contribution <i>(RMB million)</i>	Approximate shareholding percentage
Mr. Li	23.29425	46.59%
Mr. Xiong	19.20575	38.41%
Xiazhi Investment	5.00	10.00%
Chunfen Investment	<u>2.50</u>	<u>5.00%</u>
<b>Total</b>	<b><u>50.00</u></b>	<b><u>100.00%</u></b>

On 16 July 2018, Chunfen Investment entered into an equity transfer agreement with Mr. Li and Mr. Xiong pursuant to which Chunfen Investment transferred 2.7405% equity interest in Shenzhen Sprocomm to Mr. Li and 2.2595% equity interest in Shenzhen Sprocomm to Mr. Xiong at a consideration of RMB1,370,250 and RMB1,129,750, respectively and as Chunfen Investment has not settled the consideration payable under the Chunfen Transfer and Xiazhi Transfer, Mr. Li and Mr. Xiong were not required to pay the aforesaid consideration. On the same day, Xiazhi Investment transferred 5.481% equity interest in Shenzhen Sprocomm to Mr. Li and 4.519% equity interest in Shenzhen Sprocomm to Mr. Xiong at a consideration of RMB2,740,500 and RMB2,259,500, respectively and as Xiazhi Investment has not settled the consideration payable under the Chunfen Transfer and the Xiazhi Transfer, Mr. Li and Mr. Xiong were not required to pay the aforesaid consideration. The considerations were determined with reference to the registered capital of Shenzhen Sprocomm.

The following table sets forth the shareholding structure of Shenzhen Sprocomm after the above transfer:

Name of shareholders	Capital contribution <i>(RMB million)</i>	Approximate shareholding percentage
Mr. Li	27.405	54.81%
Mr. Xiong	<u>22.595</u>	<u>45.19%</u>
<b>Total</b>	<b><u>50.00</u></b>	<b><u>100.00%</u></b>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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On 8 August 2018, Shenzhen Sprocomm increased its registered capital to RMB55.556 million and JZ Capital paid the increased registered capital in the sum of RMB5.5556 million to acquire 10% equity interest in Shenzhen Sprocomm. After this capital increase, Shenzhen Sprocomm has become a Sino-foreign equity joint venture. For details, please see “The Pre-IPO Investment” in this section below.

The following table sets forth the shareholding structure of Shenzhen Sprocomm after the above increase in registered capital and immediately before the Reorganisation:

Name of shareholders	Capital contribution (RMB million)	Approximate shareholding percentage
Mr. Li	27.405	49.33%
Mr. Xiong	22.595	40.67%
JZ Capital	<u>5.5556</u>	<u>10.00%</u>
<b>Total</b>	<b><u>55.5556</u></b>	<b><u>100.00%</u></b>

Our PRC Legal Advisers have confirmed that the above equity transfers and capital contributions were properly and legally completed and settled and all necessary approvals and registrations from the relevant PRC authorities have been obtained and completed.

### *Shanghai Sprocomm*

On 24 November 2009, Shanghai Sprocomm was incorporated in PRC as a limited liability company. Shanghai Sprocomm is one of our operating subsidiaries, which is principally engaged in the business of communication technological development and consultancy services and has commenced business since November 2009.

On the date of its incorporation, Shanghai Sprocomm was owned as to 100% by Shenzhen Sprocomm with registered capital of RMB2 million.

On 13 December 2017, Shenzhen Sprocomm increased the registered capital of Shanghai Sprocomm by RMB10 million to RMB12 million.

Although there have been several equity transfers since its incorporation, Shanghai Sprocomm has remained a subsidiary of Shenzhen Sprocomm and a direct wholly-owned subsidiary of Shenzhen Sprocomm as at the Latest Practicable Date.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *Guizhou Sprocomm*

On 8 June 2016, Guizhou Sprocomm was incorporated in PRC as a limited liability company. Guizhou Sprocomm is one of our operating subsidiaries, which is principally engaged in the business of technological development of mobile phones and has commenced business since June 2016.

On the date of its incorporation, Guizhou Sprocomm was owned as to 100% by Shenzhen Sprocomm with registered capital of RMB5 million.

Since then, the shareholdings of Guizhou Sprocomm has remained unchanged.

### *Guizhou Mars*

On 29 June 2016, Guizhou Mars was incorporated in PRC as a limited liability company. Guizhou Mars is one of our operating subsidiaries, which is principally engaged in the business of research and development, production and sales of automatic systems and robotic machines and sub-systems and has commenced business since December 2017.

On the date of its incorporation, Guizhou Mars was owned as to 100% by Shenzhen Mars Exploration Technology Co., Ltd.\* (深圳火星探索科技有限公司) (“**Shenzhen Mars**”), a company which was then owned by Shenzhen Sprocomm, Mr. Li and Mr. Xiong with registered capital of RMB5 million. On 20 November 2017, Shenzhen Mars transferred the whole equity interest in Guizhou Mars to Shenzhen Sprocomm at nominal consideration.

Since then, the shareholdings of Guizhou Mars has remained unchanged.

### *Luzhou Sipukang*

On 1 September 2017, Luzhou Sipukang was incorporated in PRC as a limited liability company. Luzhou Sipukang is one of our operating subsidiaries, which is principally engaged in the business of development and application of IoT and has commenced business since September 2017.

On the date of its incorporation, Luzhou Sipukang was owned as to 100% by Shenzhen Sprocomm with registered capital of RMB100 million.

Since then, the shareholdings of Luzhou Sipukang has remained unchanged.

### *Chengdu Sprocomm*

On 2 August 2017, Chengdu Sprocomm was incorporated in PRC as a limited liability company. Chengdu Sprocomm is one of our operating subsidiaries, which is principally engaged in the business of data processing and communication and Internet technological development and has commenced business since August 2017.

On the date of its incorporation, Chengdu Sprocomm was owned as to 62.50%, 33.33% and 4.17% by Shenzhen Sprocomm, Mr. Zou Tongliang and Mr. Miao Jing, respectively, with registered capital of RMB24 million. On 1 August 2018, the registered capital of Chengdu Sprocomm was

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## HISTORY, DEVELOPMENT AND REORGANISATION

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reduced to RMB15 million and the shareholdings of Shenzhen Sprocomm, Mr. Zou Tongliang and Mr. Miu Jing in Chengdu Sprocomm remained unchanged. On 8 July 2019, Mr. Miao Jing transferred his entire shareholding in Chengdu Sprocomm to Shenzhen Sprocomm at a consideration of RMB625,005, which is with reference to the paid-up capital of Chengdu Sprocomm. After the said transfer, Chengdu Sprocomm is owned as to 66.67% and 33.33% by Shenzhen Sprocomm and Mr. Zou Tongliang, respectively. Mr. Miao Jing was the manager and legal representative of Chengdu Sprocomm. Mr. Zou Tongliang is the supervisor of Chengdu Sprocomm.

Since then, the shareholdings of Chengdu Sprocomm has remained unchanged.

### **Subsidiary in Hong Kong**

#### ***HK Sprocomm***

On 15 January 2016, HK Sprocomm was incorporated in Hong Kong as a limited liability company. HK Sprocomm is one of our subsidiaries, which is principally engaged in the business of import and/or export of mobile phones and PCBAs and has commenced business since January 2016.

On the date of its incorporation, 1,000,000 ordinary shares of HK Sprocomm was allotted and issued, credited as fully paid to Shenzhen Sprocomm at a subscription price of HK\$1,000,000.

Since then, the shareholdings of HK Sprocomm has remained unchanged.

### **Subsidiary in India**

#### ***India Sprocomm***

On 24 August 2016, India Sprocomm was incorporated in India as a limited liability company. India Sprocomm provides customer services and after-sales technical support and maintenance services as may be required by customers in India from time to time.

On the date of its incorporation, 9,900 and 100 shares of India Sprocomm were allotted and issued, credited as fully paid, to Mr. Lin Guikai and Mr. Anil Ji Garg at a subscription price of INR99,000 and INR1,000, respectively. On 30 December 2016, a further allotment of 45,647 shares were allotted to HK Sprocomm at a consideration of INR10.00 per share, after which, India Sprocomm was owned as to 82.03% by HK Sprocomm, 17.79% by Mr. Lin Guikai and 0.18% by Mr. Anil Ji Garg. Mr. Lin Guikai is a director of Indian Sprocomm and Mr. Anil Ji Garg is an ex-director of Indian Sprocomm. On 28 March 2019, Mr. Anil Ji Garg transferred 100 shares of India Sprocomm to Mr. Arghapradip Ghosh, a director of Indian Sprocomm, after which, India Sprocomm is owned as to 82.03% by HK Sprocomm, 17.79% by Mr. Lin Guikai and 0.18% by Mr. Arghapradip Ghosh.

Since then, the shareholdings of India Sprocomm has remained unchanged.

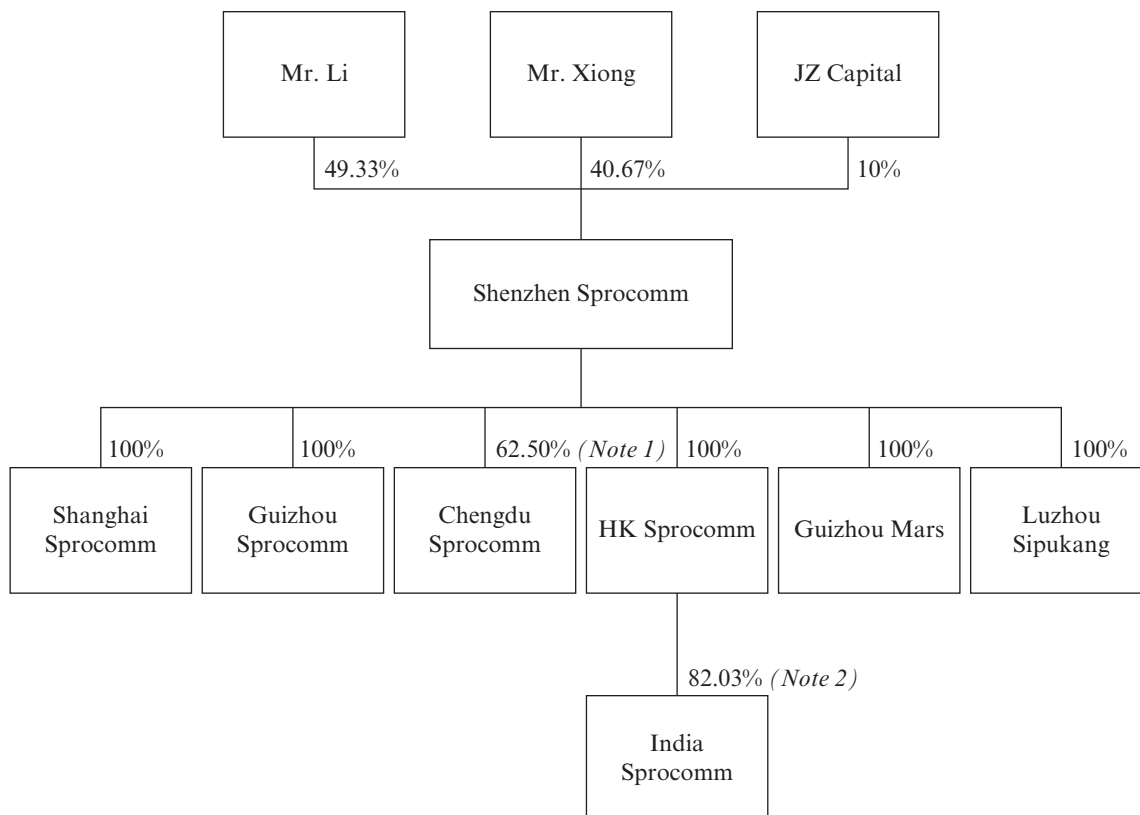
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## HISTORY, DEVELOPMENT AND REORGANISATION

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### REORGANISATION

Set out below is the shareholding and corporate structure of our Group immediately prior to the implementation of our Reorganisation:



*Notes:*

1. Chengdu Sprocomm is owned as to 62.50% by Shenzhen Sprocomm, 33.33% by Mr. Zou Tongliang (supervisor of Chengdu Sprocomm) and 4.17% by Mr. Miao Jing (the then manager and legal representative of Chengdu Sprocomm).
2. India Sprocomm was owned as to 82.03% by HK Sprocomm, 17.79% by Mr. Lin Guikai (director of India Sprocomm) and 0.18% by Mr. Anil Ji Gang (ex-director of India Sprocomm).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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In preparation for the Global Offering, we carried out a series of restructuring steps for the purpose of preparing our corporate structure for the Listing. The principal steps involved in the Reorganisation are summarised as below:

### **1. Incorporation of Leap Elite and Beyond Innovation**

Leap Elite was incorporated in the BVI on 11 April 2018 authorised to issue a maximum of 50,000 shares of US\$1.00 each. On the date of its incorporation, one share was allotted and issued at par, credited as fully paid, to Mr. Li. Accordingly, Leap Elite was owned as to 100% by Mr. Li immediately after the transfer was completed.

For family planning purpose, Mr. Li as the settlor established the Li's Family Trust by Li's Family Trust Deed with him appointed as the trustee of the same. The assets of the Li's Family Trust, being 100% of the shareholding of Leap Elite, are held by Mr. Li for the benefit of Ms. Sui, the spouse of Mr. Li, and her family members.

Beyond Innovation was incorporated in the BVI on 4 July 2018 authorised to issue a maximum of 50,000 shares of US\$1.00 each. On the date of its incorporation, one share was allotted and issued at par, credited as fully paid, to Mr. Xiong. Accordingly, Beyond Innovation was owned as to 100% by Mr. Xiong immediately after the transfer was completed.

For family planning purpose, Mr. Xiong as the settlor established the Xiong's Family Trust by Xiong's Family Trust Deed with him appointed as the trustee of the same. The assets of the Xiong's Family Trust, being 100% of the shareholding of Beyond Innovation, are held by Mr. Xiong for the benefit of Ms. Yan, the spouse of Mr. Xiong, and her family members.

### **2. Incorporation of our Company**

On 15 August 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the date of incorporation, the Company allotted and issued one Share at par, credited as fully paid to a company service provider, which was transferred to Beyond Innovation. On the same day, 5,481 and 4,518 Shares were allotted and issued at par, credited as fully paid, to Leap Elite and Beyond Innovation, respectively. Accordingly, our Company was owned as to 54.81%, and 45.19% by Leap Elite and Beyond Innovation, immediately after the Share allotment.

On 10 September 2018, our Company allotted and issued 268,569, 221,431 and 55,556 Shares to Leap Elite, Beyond Innovation and JZ Capital, respectively, after which, our Company was owned as to 49.33%, 40.67% and 10% by Leap Elite, Beyond Innovation and JZ Capital, respectively.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **3. Incorporation of Grace Kirin**

On 28 June 2018, Grace Kirin was incorporated in the BVI with an authorised number of shares of 50,000 of US\$1.00 each. On the date of incorporation, one share was allotted and issued at par, credited as fully paid to our Company. Accordingly, Grace Kirin was owned as to 100% by our Company since the date of its incorporation.

### **4. Incorporation of Sprocomm Intelligence HK**

On 27 August 2018, Sprocomm Intelligence HK was incorporated in Hong Kong with a total issued share capital of HK\$10,000 divided into 10,000 shares. On the date of incorporation, 10,000 shares were allotted and issued at HK\$1.0 each, credited as fully paid to Grace Kirin. Accordingly, Sprocomm Intelligence HK was owned as to 100% by Grace Kirin since the date of its incorporation.

### **5. Transfer of Shenzhen Sprocomm to Sprocomm Intelligence HK**

On 10 September 2018, Mr. Li, Mr. Xiong and JZ Capital transferred their respective equity interests in Shenzhen Sprocomm (representing 49.33%, 40.67% and 10% of the equity interest in Shenzhen Sprocomm) to Sprocomm Intelligence HK at a cash consideration of RMB41,337,700, RMB34,082,300 and RMB8,380,000, respectively, which were determined based on arm's length negotiation between the parties, with reference to, among others, the appraised value of Shenzhen Sprocomm and will be fully settled prior to the Listing. On the same date, our Company has allotted and issued 55,556 Shares representing 10% of its issued Share Capital before the Capitalisation Issue and the Global Offering to JZ Capital.

Accordingly, Mr. Li, Mr. Xiong, and JZ Capital ceased to have any direct interest in Shenzhen Sprocomm, and Shenzhen Sprocomm became an indirect wholly-owned subsidiary of our Company after the share transfer.

## **THE PRE-IPO INVESTMENT**

### **The Pre-IPO Capital Increase Agreement**

On 8 August 2018, Shenzhen Sprocomm and JZ Capital entered into the Pre-IPO Capital Increase Agreement pursuant to which Shenzhen Sprocomm shall increase its registered capital from RMB50 million to RMB55.5556 million and JZ Capital shall pay the increased registered capital of RMB5.5556 million of Shenzhen Sprocomm at a consideration of RMB8 million and was fully and unconditionally settled in cash (which was funded by its own funding) on 3 September 2018. Immediately after the above capital increase, JZ Capital owned 10% equity interest in Shenzhen Sprocomm.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Details of the Pre-IPO Investment

The following table summarises the details of the Pre-IPO Investment:

Investor's background: JZ Capital is a company with limited liability incorporated in Hong Kong on 1 November 2017 and is principally engaged in investment activities. As at the date of the Pre-IPO Capital Increase Agreement and the Latest Practicable Date, JZ Capital was owned as to 99% and 1% by Ko Hin Ting, James (“**Mr. Ko**”), an Independent Third Party (other than being a Shareholder) and Lee Shun Hing, Jimmy (“**Mr. Lee**”), an Independent Third Party (other than being a Shareholder), respectively.

Mr. Ko is a private investor and has over 8 years of experience in the accounting and asset management industry. The investment portfolio of Mr. Ko includes shares of listed companies, private equity and other structural investment products across various industries, such as financing service, internet software and service, electronic equipment, instruments and components. The average investment horizon of Mr. Ko's investment portfolio ranges from about four to eight years. Mr. Ko's investment portfolio amounted to approximately HK\$25 million and was funded by accumulated savings from his employment and from the financial support of his family members.

Further, Mr. Ko accumulates experience and establishes his business network in the mobile telecommunication industry by managing a family investment in Yilu (Beijing) Technology Co., Ltd.\* (億旅(北京)技術有限公司) (“**YL (Beijing)**”), a PRC company engaged in the provision of information technology consultation and development related to the travel industry through a location-based service platform known as wisetrip.com (億旅網) which allowed its users to book travel products using their mobile devices. YL (Beijing) was dissolved in June 2016 as it was unable to secure sufficient funds to finance its further development.

Mr. Ko was responsible for reviewing the financial statements, budgets and internal controls of YL (Beijing) and advising YL (Beijing) on future plans and corporate strategies.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Prior to its dissolution, YL (Beijing) had a paid-up capital of HK\$4.5 million. YL (Beijing) did not have any major customers as the customers were individual or retail customers using the platform, while its major suppliers included China United Network Communications Group Co. Ltd., China National Tourism Administration and taobao.com.

As confirmed by Mr. Ko and the Company, YL (Beijing) did not have any business or financial relationship with the Group or the Group's major customers or suppliers prior to its dissolution and during the Track Record Period.

Mr. Ko has been working as an investment manager in China Point Asset Management Limited since 2015. His primary duties in this company include (i) conducting research on the feasibility and profitability of potential investments in companies engaged in the fields of Fintech, telecommunication, artificial intelligence and technology; and (ii) performing risk assessment and valuation on different types of assets, including shares, bonds and other structured investment products. Prior to joining China Point Asset Management Limited, Mr. Ko worked in PricewaterhouseCoopers from October 2010 to June 2014 where his last position held was senior associate in the assurance department.

Mr. Lee is a private investor and has over 24 years of experience in the accounting, finance and asset management industry. The investment portfolio of Mr. Lee covers investment in mutual funds that are specialised in a number of different geographical regions and industries like global technology and telecommunications, electronics and healthcare sectors. He also makes investment in residential real estate and foreign exchange. The size of Mr. Lee's investment portfolio is around HK\$1 million in average. The average investment horizon of Mr. Lee's investment portfolio ranges from about five to 10 years and his investments were funded by accumulated savings from his employment and from the co-investment with his family members.

Further, Mr. Lee is an experienced investment market practitioner. He possesses hands-on experience in providing investment advice to both individual and corporate clients in relation to their investments in different asset classes like funds, shares, bonds and other structured investments.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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Mr. Lee is currently a director and responsible officer of RP Asset Management Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. He engaged in the asset management and wealth management industry since 2000. Before entering the asset management and wealth management industry, he worked in Deloitte Touch Tohmatsu, Kwan Wong Tan & Fong Certified Public Accountants from 1994 to 1999. Mr. Lee is a Chartered Financial Analyst (CFA) charterholder and a Certified Financial Planner (Hong Kong) since 2000 and he is also a practicing Certified Public Accountants (part-time license) in Hong Kong since 2010.

Mr. Ko and Mr. Lee were introduced to the Company in around March 2018, through their mutual friend, Dr. Li Ye (李擘) (“Dr. Li”) who is a director of Beijing Hengshan Investment Management Co., Ltd. (北京恒善投資管理有限公司), a PRC company principally engaged in provision of information technology consultation and development. Dr. Li obtained a doctorate degree in signal and information processing from the Graduate School of Chinese Academy of Sciences in 2008. Dr. Li has experience in developing value-added service system and client terminal for telecommunication operators and he was also an indirect shareholder and the director of YL Beijing at the time of its dissolution. JZ Capital decided to invest in our Group as they are optimistic of the growth potential in our Group, having considered the strong R&D capability, the wide and strong customer base, the ability to provide one-stop vertically integrated ODM services of mobile phones, and the prospect of our business. Having conducted the due diligence exercise on our Group, JZ Capital is satisfied with the business and financial conditions of our Group and entered into the Pre-IPO Capital Increase Agreement with Shenzhen Sprocomm.

Date of the Pre-IPO Capital Increase Agreement: 8 August 2018

Date of unconditional settlement of consideration of the Pre-IPO Investment: 3 September 2018

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Amount of consideration paid:	RMB8 million
Equity interests in Shenzhen Sprocomm subscribed:	RMB5.5556 million representing 10% equity interest in Shenzhen Sprocomm immediately after and as enlarged by the Pre-IPO Investment
Basis of determination of consideration:	Based on an arm's length negotiation between the parties with reference to, among others, (i) the appraised value of Shenzhen Sprocomm of RMB83.0086 million as at 31 May 2018 based on asset-based approach pursuant to the asset valuation report dated 26 June 2018 prepared by Shenzhen Zhongkehua Assets Appraisal Co., Ltd.* (深圳中科華資產評估有限公司), an independent PRC valuer; (ii) the discount rates of the pre-IPO investments of selected successful Main Board listings before the Pre-IPO Capital Increase Agreement; (iii) the status of Shenzhen Sprocomm as a private company and the investment risk assumed by JZ Capital in investing in a private unlisted company; (iv) JZ Capital was not granted any divestment right or other special rights under the Pre-IPO Capital Increase Agreement; (v) the intention of JZ Capital of being a passive investor without participation in the management and daily operation of our Group; and (vi) the stock market performance when entering into the Pre-IPO Capital Increase Agreement
Investment cost per Share paid by JZ Capital upon Listing (assuming that the Capitalisation Issue has taken place) ( <i>Note</i> ):	Approximately RMB0.11/HK\$0.13
Discount over the mid-point of the indicative Offer Price range:	Approximately 76.4%
Use of proceeds:	Our Group received RMB8 million from the Pre-IPO Investment. The proceeds shall be used for general working capital. As at the Latest Practicable Date, the proceeds had been fully utilised.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Strategic benefits that JZ Capital would bring to our Group:	Our Directors are of the view that our Company can benefit from JZ Capital's commitment to our Company and its investment demonstrates its confidence in our operations and serve as an endorsement of our operational performance strength and future business prospects. Our Directors believe that our Company will benefit from the strategic input from Mr. Ko and Mr. Lee in the management and general corporate governance practices of our Company and the improvement of our Company's overall corporate strategies, financial reporting, internal control and risk management policies given their extensive managerial experience in the investment and finance industry.
Shareholding in our Company immediately following completion of the Capitalisation Issue and the Global Offering:	Approximately 7.5% (assuming that the Over-allotment Option and the options which may be granted under the Share Option Scheme are not exercised)
Special rights that will survive after Listing:	None
Relationship with us (other than being a Shareholder):	Independent Third Party
Public float:	The Shares held by JZ Capital are considered as part of the public float for the purposes of Rule 8.08(1)(a) of the Listing Rules as JZ Capital will not be a substantial shareholder of our Company upon Listing.

*Note:* Calculation is based on a total of 750,000,000 Shares, being the number of Shares in issue immediately upon completion of the Capitalisation Issue.

Each of JZ Capital, Mr. Ko and Mr. Lee has agreed that, subject to customary carve outs, it will not, at any time during the period of 12 months following the Listing Date, dispose of any of the Shares held by JZ Capital.

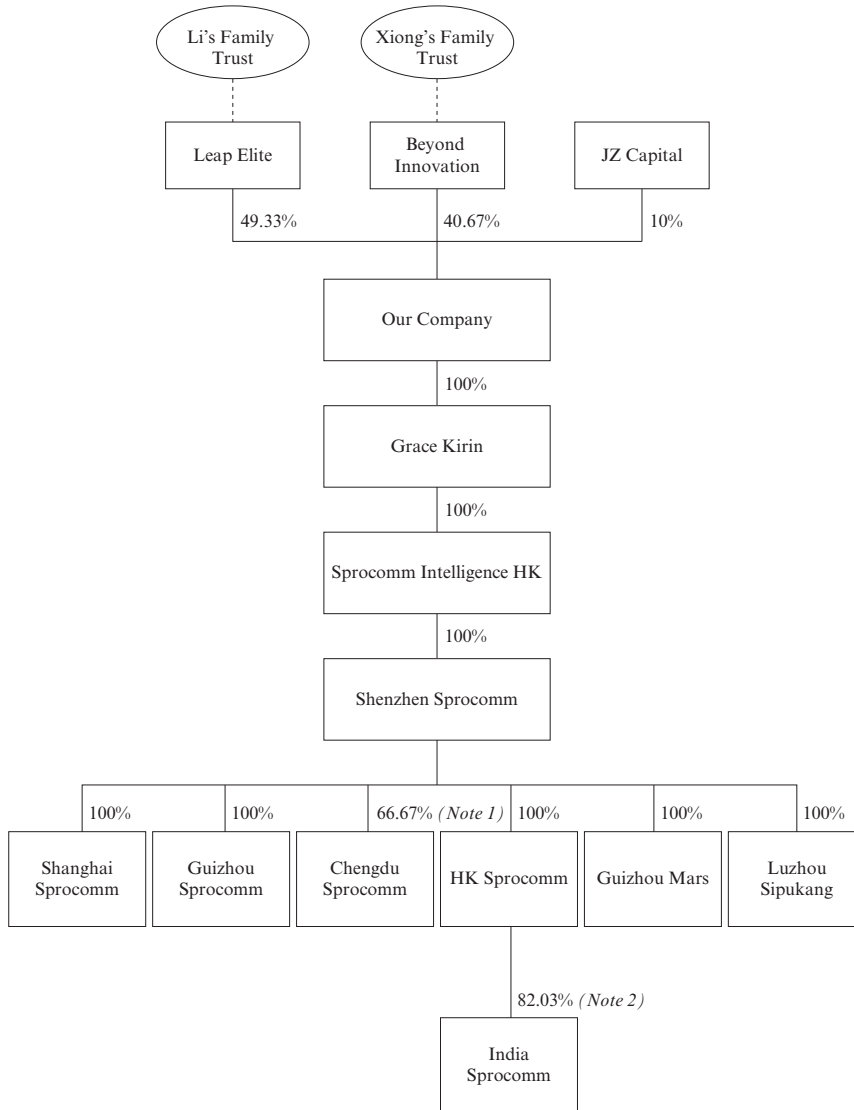
### **Sole Sponsors' confirmation**

The Sole Sponsor has confirmed that the Pre-IPO Investment is in compliance with the "Interim Guidance on pre-IPO Investments" issued by the Stock Exchange on 13 October 2010 (as amended) since the unconditional settlement of the consideration under the Pre-IPO Capital Increase Agreement took place on 3 September 2018 which was more than 28 clear days before the date of the first submission of the listing application to the Stock Exchange in relation to the Listing. The Sole Sponsor has also confirmed that the terms of the Pre-IPO Investment are in compliance with Guidance Letters HKEx-GL29-12 and HKEx-GL43-12 whereas the Guidance Letter HKEx-GL44-12 is not applicable to the Pre-IPO Investment.

# HISTORY, DEVELOPMENT AND REORGANISATION

## CORPORATE AND SHAREHOLDING STRUCTURE

Upon completion of the Reorganisation and the Pre-IPO Investment but before the Capitalisation Issue and the Global Offering, Leap Elite, Beyond Innovation, and JZ Capital shall hold the issued Shares as to approximately 49.33%, 40.67% and 10% respectively. The following chart sets forth the Group's corporate structure and shareholding structure immediately after the Reorganisation and the Pre-IPO Investment, but immediately prior to the Capitalisation Issue and the Global Offering:



*Notes:*

1. Chengdu Sprocomm is owned as to 66.67% by Shenzhen Sprocomm and 33.33% by Mr. Zou Tongliang (supervisor of Chengdu Sprocomm).
2. India Sprocomm is owned as to 82.03% by HK Sprocomm, 17.79% by Mr. Lin Guikai (director of India Sprocomm) and 0.18% by Mr. Arghapradip Ghosh (director of India Sprocomm).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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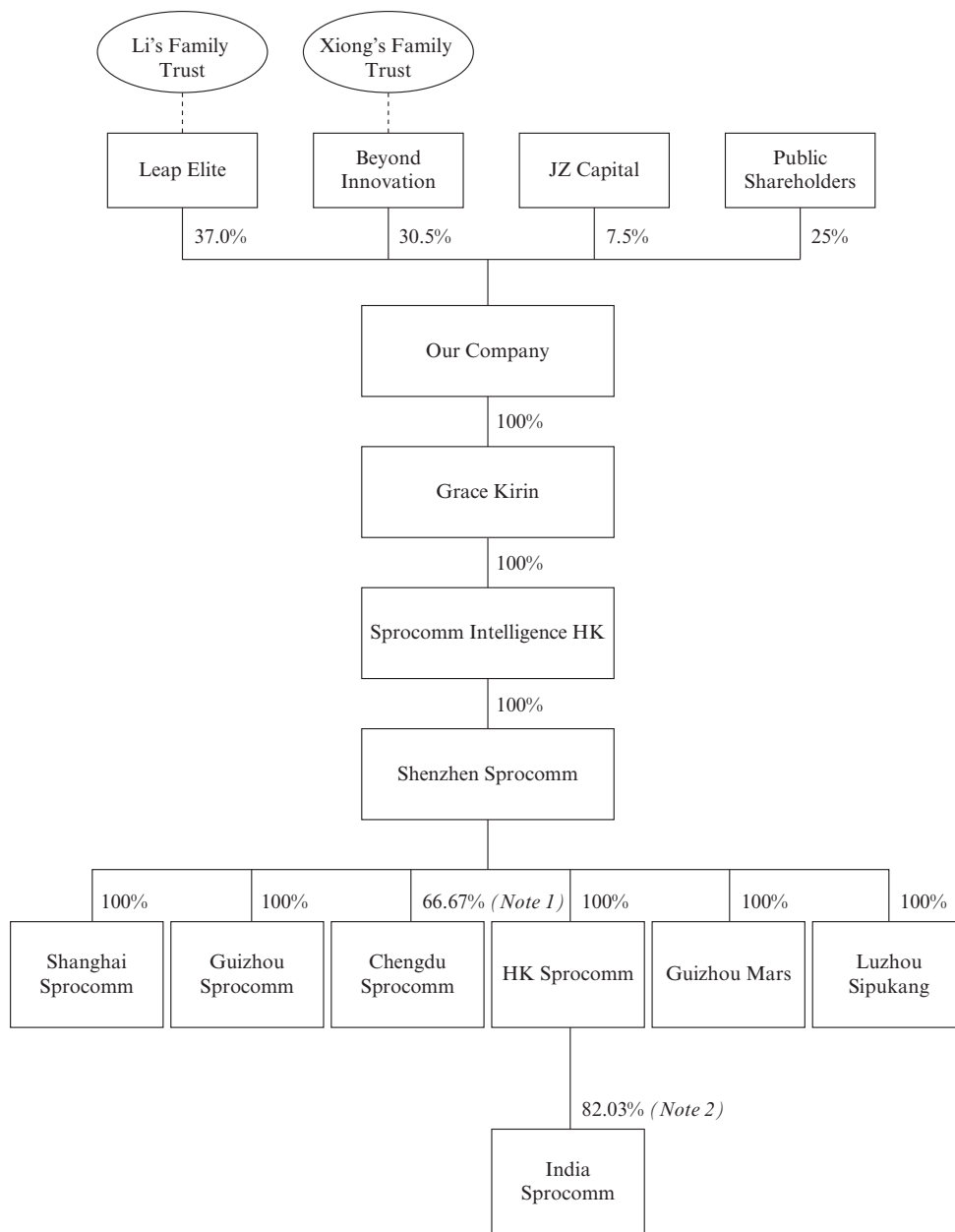
### CAPITALISATION ISSUE AND GLOBAL OFFERING

The authorised share capital of our Company is expected to be increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each.

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, a sum of HK\$7,494,444.44 standing to the credit of the share premium account of our Company will be capitalised by way of applying such sum in paying up in full 369,693,154 Shares, 304,806,306 Shares and 74,944,984 Shares in our Company for the issue to Leap Elite, Beyond Innovation and JZ Capital, respectively, immediately before the Global Offering.

## HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets forth the corporate structure and shareholding structure of our Group upon completion of the Capitalisation Issue and the Global Offering (taking no account of any Shares issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme):



*Notes:*

1. Chengdu Sprocomm is owned as to 66.67% by Shenzhen Sprocomm and 33.33% by Mr. Zou Tongliang (supervisor of Chengdu Sprocomm).
2. India Sprocomm is owned as to 82.03% by HK Sprocomm, 17.79% by Mr. Lin Guikai (director of India Sprocomm) and 0.18% by Mr. Arghapradip Ghosh (director of India Sprocomm).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant material approvals and permits in relation to the share transfers and any changes in the registered capital in respect of the PRC companies in our Group as described above had been obtained and has complied with all applicable laws and regulations in the PRC and do not violate any PRC laws and regulations in all material aspects.

#### Compliance with the M&A Rules

According to the M&A Rules, merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or natural person in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or natural person shall be subject to examination and approval by the MOFCOM. An offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

Our PRC Legal Advisers are of the view that since Shenzhen Sprocomm was a sino-foreign equity joint venture enterprise after the Pre-IPO Investment, and the acquisition of 100% equity interest in Shenzhen Sprocomm in September 2018 represents a transfer of equity interest in a foreign invested enterprise as Shenzhen Sprocomm was a sino-foreign joint venture enterprise at the time when such acquisition took place, therefore the M&A Rules are not applicable and the approval from the MOFCOM, CSRC or other PRC government authorities for the listing is not required.

#### SAFE registration in the PRC

The SAFE Circular No. 37 requires a PRC individual resident (the “**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Offshore SPV**”) that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, upon changes in basic information including (amongst others) PRC Resident shareholder, name or term of operation, or changes in material issues including (amongst others) capital increase or capital decrease, equity transfer or swap, merger or split, the Offshore SPV shall complete the registration procedures for the changes in a timely manner.

Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the offshore special purpose vehicles' PRC subsidiary to distribute dividends to its overseas parent.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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On 13 February 2015, SAFE released the Notice on Further Simplifying and Improving Foreign Exchange Administration Policies for Direct Investment (Hui Fa [2015] No. 13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》(匯發[2015]13號)), which came into effect on 1 June 2015. The Notice replaces the foreign direct investment (the “**FDI**”) and offshore direct investment (the “**ODI**”) registrations at SAFE with FDI and ODI registrations at qualified banks, which SAFE and its local branches will supervise indirectly. The registration under SAFE Circular No. 37 is under the catalogue of FDI and it shall be registered at such qualified banks mentioned above.

Our PRC Legal Advisers have confirmed that each of Mr. Li and Mr. Xiong, being PRC individual residents and Controlling Shareholders of our Company, has registered in Bank of Ningbo Shenzhen Branch in respect of his foreign investment in our Group as of 28 August 2018 in accordance with SAFE Circular No. 37.

## BUSINESS

### OVERVIEW

We are an ODM mobile phone supplier based in the PRC targeting emerging markets. According to the CIC Report, we ranked the 5th amongst all ODM mobile phone suppliers in the PRC with 3.3% market share in terms of unit shipments in 2018.

We are primarily engaged in R&D, designing, manufacturing and sale of mobile phones and PCBAs for mobile phones on ODM basis to markets covering more than 15 countries worldwide, with strategic focus on India and other emerging markets which have growing demands and high population. Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in India, Thailand, China, other Asian countries and other parts of the world. The table below sets out the breakdown of our revenue by shipment destinations in the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue	RMB'000	revenue
<b>Emerging Asia</b>								
India	1,041,746	48.0	1,519,280	52.6	1,744,915	59.3	210,566	28.3
Thailand	663,621	30.6	409,545	14.2	62,796	2.1	—	—
Pakistan	111,823	5.1	201,342	7.0	188,752	6.4	37,423	5.0
Bangladesh	111,682	5.1	156,691	5.4	192,900	6.6	25,308	3.4
The PRC	110,520	5.1	309,727	10.7	388,606	13.2	289,259	38.9
Vietnam	10,803	0.5	5,630	0.2	—	—	—	—
Sub-total:	2,050,195	94.4	2,602,215	90.1	2,577,969	87.6	562,556	75.6
<b>Other regions</b>								
Algeria	—	—	3,604	0.1	210,280	7.1	156,309	21.0
Dubai	21,670	1.0	70,467	2.4	—	—	586	0.1
Russia and Ukraine	23,486	1.1	51,738	1.8	86,102	2.9	—	—
Others (Note)	76,516	3.5	161,634	5.6	69,373	2.4	24,852	3.3
Sub-total:	121,672	5.6	287,443	9.9	365,755	12.4	181,747	24.4
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

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

Foreseeing the potential demand for mobile phones in emerging markets, our Group commenced offering feature phones to India back in 2010. Since then, we have gradually built strong capability of R&D, design, validation and production management of mobile phones. To keep pace with the technological development and envisaging the rising popularity of smartphones, our R&D team successfully designed and realised PCBAs (a core module for a mobile phone) for smartphones in 2011, which has set the foundation to broaden our customer base to cover well established local mobile phone suppliers in India since then. In order to enhance customer loyalty and expand our customer base, we paved way to offer all rounded services by equipping ourselves with own mobile phone production plant in 2014 in small scale followed by expansion and relocation to our current Shenzhen Plant in September 2015.

## BUSINESS

Most of our revenue was derived from sale of PCBAs for mobile phones in 2015. To meet customers' preferences and along with the smooth operation of our Shenzhen Plant, we shifted our focus to offer mobile phones as our end products since 2016, whereas most of the PCBAs we designed and developed are supplied to satisfy internal needs for fulfilling orders for mobile phones since 2017. As stable supply of quality PCBAs is key to success of offering mobile phones, we took the advantage from local incentive policies and set up our Luzhou Plant for SMT production for mobile phone PCBAs in 2018. As at the Latest Practicable Date, our Shenzhen Plant is equipped with 10 mobile phone assembly lines with a GFA of 13,560 sq.m. and annual production capacity of 15.8 million units of mobile phones in FY2018, and our Luzhou Plant is equipped with four SMT lines with a GFA of 19,871 sq.m. and annualised production capacity of 2.5 million pieces of smartphone PCBAs.

During the Track Record Period, we primarily offered smartphones, feature phones and PCBAs for mobile phones. As an experienced smart mobile communication device designer and developer, we developed our capability to offer IoT related products and other cloud related services which started to generate income in FY2017. IoT is a combination of hardware and software product which enables one remote control and monitor a device. PCBAs or IoT modules for smart lock and automatic electricity meter readers are examples of our IoT related products. Below is a breakdown of our revenue by product types during the Track Record Period.

	FY2016		FY2017		FY2018		4M2019	
	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue
<b>Mobile phones<sup>1</sup></b>								
— Smartphones	584,722	26.9	1,559,760	54.0	2,073,294	70.4	556,264	74.7
— Feature phones	758,899	34.9	676,009	23.4	584,482	19.9	135,463	18.2
<b>Sub-total:</b>	<b>1,343,621</b>	<b>61.8</b>	<b>2,235,769</b>	<b>77.4</b>	<b>2,657,776</b>	<b>90.3</b>	<b>691,727</b>	<b>92.9</b>
<b>PCBAs</b>	748,658	34.5	428,654	14.8	148,895	5.1	4,886	0.7
<b>IoT related products</b>	—	0.0	140,443	4.9	66,045	2.2	18,799	2.5
<b>Others<sup>2</sup></b>	79,588	3.7	84,792	2.9	71,008	2.4	28,891	3.9
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

Notes:

- (1) At the request of our customers, some mobile phone products are delivered in the form of component packs (semi knock-down (SKDs) for mobile phones which include hardware components such as PCBAs, display modules, camera modules, audio, sensors, etc.) that are assembled and packaged by our customers after being imported to their country(ies), as they consider the importation of finished electronic devices attracts higher taxes than those for components in the relevant country(ies).
- (2) Others mainly include revenue from the sales of mobile device components used for after-sales services and the provision of R&D and technical services for mobile phones, PCBAs and cloud related products.

**COMPETITION**

Due to rapid advancement of technology and increased expectation of customers for more personalised mobile phones, the telecommunication and consumer electronics industry is highly competitive. According to the CIC Report, the mobile phone ODM market in China was relatively concentrated, and is expected to be more concentrated as market players are becoming polarised. Top 10 market players accounted for 58.3% of total market share in China's mobile phone ODM market, in terms of mobile phone unit shipments in 2018. Our Group, with a market share of 3.3%, ranked 5th among all ODM mobile phone suppliers in the PRC in 2018. Top five players including Wingtech, Huaqin, Longcheer, Fortuneship and Sprocomm accounted for a total market share of 47.4% by unit shipments in 2018, according to the CIC Report.

The Directors believe that the major entry barriers for mobile phone industry include the ability to achieve economy of scale, large capital investment, employ and retain experienced and qualified staff, maintain loyalty of customers, maintain high R&D capability, establish solid supply chain management. The Directors consider that our capability in offering all around and one-stop solution services, the excel in vertical integration of supply chain to enhance overall production management efficiency, strong R&D and adaptive design capabilities and experienced management team to strive for stable and wide customer base would be major competitiveness, which distinguish our Group from its competitors. Besides, since we do not sell self-branded mobile phones, we avoid ourselves from direct competition from our competitors in the market as our customers would encounter. Our Directors consider this a deliberate strategy and do not plan to make any change in the recent future.

**COMPETITIVE STRENGTHS****A top ten ODM mobile phone supplier in the PRC targeting emerging markets**

We are a top ODM mobile phone supplier in the PRC targeting emerging markets. Our mobile phones are sold by our customers in more than 15 countries, including China, under their own or authorised brands. According to the CIC Report, we ranked the 5th amongst all ODM mobile phone suppliers in the PRC in terms of unit shipments in 2018.

We are primarily engaged in developing, designing, manufacturing and sale of mobile phones to both domestic and overseas customers, particularly to emerging markets with large population and low mobile phone penetration rate, such as India, Pakistan and Bangladesh. We have started exporting our products to the emerging markets since 2010. Our revenue generated from the Emerging Asia for each of FY2016, FY2017, FY2018 and 4M2019 was RMB2,050.2 million, RMB2,602.2 million, RMB2,578.0 million and RMB562.6 million, respectively, which represents 94.4%, 90.1%, 87.6% and 75.6% of our total revenue in the corresponding periods, respectively.

According to the CIC Report, global smartphone unit shipments expanded from 1,308.2 million units in 2014 to 1,427.1 million units in 2018 at a CAGR of 2.2%, and is expected to reach 1,659.4 million units in 2023 due to the global commercialisation of 5G. China's ODM mobile phone unit shipments increased from 557.2 million units in 2014 to 608.5 million units in 2018, representing

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## BUSINESS

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a CAGR of 2.2%. China is the world's largest smartphone market, accounting for 30.6% of global smartphone unit shipments in 2018. Emerging Asia (excluding China) also accounted for a significant portion of the global smartphone unit shipments with a share of 17.5%. As compared with other countries, Emerging Asia (excluding China) witnessed the fastest growth of smartphone unit shipments from 2014 to 2018 at a CAGR of 11.8%.

We believe our strategic focus on the emerging markets has laid a strong foundation and developed a well-established client base for us to capture the further growth as ODM mobile phones as expected to thrive in the emerging markets. We believe our Group has a wider global presence than our key competitors who are also leading ODM mobile phone exporters in the PRC and we plan to continue to expand our geographical coverage in the future.

### **Continued expansion of customer base with stable relationship with major customers**

According to the CIC Report, the population of Emerging Asia (excluding China) grew from 2,217.9 million in 2014 to 2,334.7 million in 2018, and is expected to reach 2,488.5 million in 2023, with a CAGR of 1.3% from 2018 to 2023. The total population of Emerging Asia makes up nearly half of the world's population, and India is the second most populated country in the world with nearly a fifth of the world's population. Also according to the CIC Report, India's mobile phone unit shipments rose from 210.7 million units in 2014 to 289.9 million units in 2018, representing a CAGR of 8.3%, and are expected to increase to 410.2 million units in 2023 at a CAGR of 7.2%.

With the foresight of Mr. Li (one of our founders) that there would be growing demand in mobile phones in India, we tapped into the market in 2010 with our feature phone offerings to a top local mobile phone supplier. To keep pace with the technological development and envisaging the rising popularity of smartphones, our R&D team successfully designed and realised PCBAs (a core module for a mobile phone) for smartphones in 2011, which has set the foundation to broaden our customer base to cover more well established local mobile phone suppliers in India. We commenced to provide products to top local mobile phone suppliers in India, including Micromax and Lava since 2011 and 2012, respectively. India has since become our major market. During the Track Record Period, our revenue attributable to customers in India amounted to RMB1,041.8 million, RMB1,519.3 million, RMB1,744.9 million and RMB210.6 million for FY2016, FY2017, FY2018 and 4M2019, respectively, representing 48.0%, 52.6%, 59.3% and 28.3% of our total revenue during the corresponding periods.

Leveraged on our client portfolio of market leading local branded mobile phone suppliers, we successfully increased our number of customers from 17 in 2014 to about 75 in 2018, and broadened our geographical customer base to more than 15 countries globally, and have successfully established stable business relationship with the leading local branded mobile phone suppliers and telecommunication companies as well as trading companies who sell the mobile phones under their own or authorised brands, including "Lava", "Micromax" and "Intex" in India, "Condor" in Algeria and "QMobile" in Pakistan etc. As of 30 April 2019, we have maintained more than five years of business relationship with majority of our top five customers during the Track Record Period.

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## BUSINESS

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We believe our business network in India market fostered our foundation to maintain our market share and further penetrate into this huge market. We also believe our footprints in various countries equip us to further extend our coverage worldwide as opportunities arise.

### **Providing one-stop vertically integrated ODM services under quality management systems**

We are a vertically integrated mobile phone supplier offering one-stop ODM services covering R&D, product design and validation, technical advice, sourcing of components, production and assembly, packaging, delivery and after-sale services. We conduct market survey to understand the needs and latest trend of the target market and propose to our client the product design or the improvement on the initial design specifications provided by customers. To the best knowledge of our Directors, our customers treasure these advice which enables us to develop customers' loyalty.

PCBAs are key modules of mobile phones and we have R&D and production capability to design and develop PCBAs to support our production of mobile phones to optimise our costs effectiveness and the overall production efficiency. Other than four SMT lines for PCBA assembly in our Luzhou Plant, we also have 10 mobile phone assembly lines at our Shenzhen Plant with annual capacity of 15.8 million units of mobile phones in FY2018.

We conduct quality control checking on raw material components, semi-finished products and finished products. We are committed to implementing high standard quality control measures and had accredited with the ISO 9001 certification of quality management system and ISO 14001 certification of environmental management system, in respect of our production and assembling of mobile phones and PCBAs. With respect to our products, we have obtained the "CCC" certifications in the PRC. As part of our value-added services, our Group has also assisted our customers to obtain international product quality and safety certifications in compliance with local requirements to facilitate the onward sale by our customers in their target markets.

After delivery of our products, we continue to offer technical supports services to our customers. We believe our one-stop vertically mobile phone ODM services offers all-around solutions to satisfy our customers' customised needs.

### **Strong R&D and adaptive design capabilities**

Strong R&D and adaptive design capabilities is one of keys to the success as an ODM mobile phone supplier. As at 30 April 2019, our R&D team consists of more than 280 staff including experienced electronics, mechanical, software, driver and testing engineers under the leadership of Mr. Li Hongxing, our executive Director and head of product R&D department who has over 10 years of experience in R&D of mobile communication devices.

Our R&D team is highly experienced in the design and development of feature phones, smartphones and PCBAs adopting various mobile communication standards of 2G, 3G and 4G including GSM, WCDMA, LTE, etc. with different operating frequency and operated in common mobile operating system, such as Android, to cater for our customers' requirements from various geographical regions. Since July 2018, our R&D team has been working on the R&D on choice of

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## BUSINESS

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materials and design of antennas required for 5G frequency range, which is the core R&D step for 5G mobile phones and followed by the R&D on the radio frequency modules for the 5G mobile phone PCBAs started in August 2019. We believe we will be able to equip ourselves with capabilities to serve the needs for 5G mobile phones in 2020. For details of our plan and timeframe for R&D development of 5G mobile phones, please see “Future Plans and Use of Proceeds — Implementation plans — Note 3”. Our flexible design capability allows us to respond swiftly to our customers’ needs.

Our R&D team is also experienced in designing mobile phones and PCBAs with a broad spectrum of specifications, i.e. different wireless communication standards, with chipsets from different suppliers and different settings and many other modules at different price ranges. This flexibility and our supply chain capabilities provides us with the advantage of outputting designs that suit a wide range of products at similar price ranges exported to various markets.

We are capable of providing hardware, software, industrial design for producing a mobile phone and are strong at high-speed PCBA compatibility design to optimise the compatibility of various hardware, software and components of a mobile phone with specified functions to meet the latest demand and preferences of our diversified groups of customers. Our R&D team has been working on the enhancement of the functions and advancement of specifications of mobile phones (including but not limited to battery life, waterproof performance, camera’s image quality and the implementation of health monitoring functions into mobile phones), the improvement of the mobile phone appearance and trim down of the size and weight of mobile phones, and the development of artificial intelligence and dual-lens camera. We target a quick design-to-deliver cycle which generally takes around four to five months for us to develop a new model.

Other than mobile phones and related PCBAs, our R&D team has sound capability in design, develop and validate various IoT related products. IoT is based on the concept that every object can connect to the internet to exchange information and increase its intrinsic value. According to the CIC Report, the scope of IoT is vast. It can be embedded with electronics, software, sensors, actuators, etc. This connectivity allows people to record and share data which has been collected manually before and integrate digital information from the physical world into computer-based systems, thus creating economic benefits and reducing human exertion. We successfully launched smart lock PCBAs for a shared bicycle company in 2017. We believe our capability in developing products beyond mobile phones fosters our ground to expand our product offering and revenue drivers.

During the Track Record Period, we developed over 500 mobile phone models (including PCBAs models for mobile phones) and over 10 models of IoT related products meeting the needs of various customers. As a mobile phone supplier on ODM basis with strong design capability, we have designed and registered more than 35 patents and 45 software developed by our R&D team. The details of the material intellectual property rights owned by our Group are set out in “Statutory and general information — Further information about the business of our Company — 2. Intellectual property rights” in Appendix IV to this prospectus.



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For each of FY2016, FY2017, FY2018 and 4M2019, our R&D costs amounted to RMB78.8 million, RMB102.8 million, RMB105.4 million and RMB25.7 million, respectively. We believe that our edge on our R&D and design capabilities enables us to appeal to and quickly adapt to our customers' needs, maintain business relationships with our existing customers as well as exploring new business opportunities.

### **Experienced, stable and dedicated management team**

We believe the experience of our management team is fundamental to our Group in building a solid foundation for the subsequent development of our business. We are managed under a core management team under the leadership of Mr. Li and Mr. Xiong, who are our co-founders and executive Directors, each has more than 20 and 15 years of experience in the mobile communication industry, respectively. With their experience in the industry, both Mr. Li and Mr. Xiong established good business network with our upstream and downstream industry players. Mr. Li and Mr. Xiong, together with our sales team, pay frequent visits to our existing and prospective customers to understand and react timely to regional consumers' needs and preferences. Further, as mentioned above, Mr. Li Hongxing, our executive Director overseeing our R&D team, has over 10 years of experience in developing and designing mobile phones.

For details, please see "Directors and senior management" in this prospectus.

### **BUSINESS STRATEGIES**

We strive to attain growth by maintaining our Group as a top mobile phone supplier with strong R&D capability targeting emerging markets and expanding our product portfolio to diversify our revenue drivers, through the following strategies.

#### **Diversification in emerging markets**

We strive to maintain our market share in India, expand our markets in China and broaden our geographical coverage to diversify in other emerging markets.

According to the CIC Report, (i) China topped the list of smartphone unit shipments by region, representing 30.6% of global smartphone unit shipments in 2018, followed by Emerging Asia (excluding China) and North America with shares of 17.5% and 13.5% respectively; (ii) Emerging Asia (excluding China) saw the fastest growth in terms of smartphone unit shipments from 2014 to 2018 at a CAGR of 11.8%, and is estimated to maintain its rapid growth trajectory at a CAGR of 10.9% from 2018 to 2023; and (iii) India is projected to be the world's most populous country by 2024, and India's mobile phone unit shipments are expected to increase to 410.2 million units in 2023 at a CAGR of 7.2%, and smartphone unit shipments experienced an incredible rise, increasing from 79.5 million units in 2014 to 145.1 million units in 2018, representing a CAGR of 16.2%, and are expected to further increase to 268.5 million units in 2023 with a CAGR of 13.1%. The strong potential for further development comes from the large population base, the current low penetration rate of smartphones, and the high investment of Chinese mobile phone brands in Emerging Asia (excluding China) markets in terms of model-developing, channel-building and advertising.

We will leverage on our advantageous position in India to enhance our local market penetration. While at the same time, in order to diversify our customer base, we plan to increase sales and marketing force to broaden customer base in other emerging market countries. We plan to recruit 15 sales personnel to focus on various sales and marketing activities including conduct market research and customer survey, identifying and establishing cooperation with potential customers, taking part in various overseas exhibitions and trade show, focusing on India market, PRC and other emerging countries. Although mobile phones are usually sold under big names who have increasing market penetration, many brand owners outsource their design and manufacturing process to ODMs. According to the CIC Report, more brand owners realise the benefits of outsourcing R&D and manufacturing tasks which enhances their costs and production efficiency, and hence mobile phones manufactured by China ODMs are expected to maintain a relatively high market share of the global mobile phone market in terms of unit shipments. Our Directors believe this supports the continuing demand of China ODMs.

To explore potential business opportunities with reputable PRC mobile phone brand owners, we plan to recruit additional sales personnel mainly focusing on building up business relationship with them through various avenues including (i) communicating with the relevant procurement staff of potential customers to understand their needs through emails, telephone calls or face-to-face meetings; (ii) discussing with our R&D team on customers' needs; and (iii) introducing our new models or designs to potential customers and collecting feedbacks. For details, please see "Future plans and use of proceeds — Use of proceeds" in this prospectus. Given the increasing penetration of big players in the PRC smartphone market, we will participate or attend various worldwide telecommunication exhibitions, such as Consumer Electronic Shows (CES) and Mobile World Congress and Telecommunications, and pursue business opportunities from top mobile phone brands who also take part in the exhibitions. We will also actively attend press conferences and business forums arranged by major PRC mobile phone brands and telecommunication operators.

In 2018, we have tapped into the North Africa market and has established relationship with a local branded electronic product supplier and derived revenue of RMB178.1 million from this customer. For 4M2019, the proportion of our total revenue derived from the North Africa market increased to 21.0% from 7.1% for FY2018. When we expand our IoT related product offerings, we will also diversify our customer base to include telecommunication operators in China.

We believe our long-term relationship with customers being top local mobile phone suppliers and telecommunication operators in other countries will best position for our Group to capture the potential growth in various markets.

### **Further strengthen our R&D capabilities to enrich our product offering**

Our products are well regarded by our customers for their quality and functionalities which is largely attributable to our R&D team's ability to optimise and integrate the hardware and software used in our products. We also strive for providing full range of features with latest technology at competitive prices.

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To strengthen our product offering capability and enrich our product offerings at competitive prices, we plan to increase our R&D resources on both (i) mobile phone related products and (ii) IoT related products.

According to the CIC Report, the global smartphone sales value recorded a growth from USD380.2 billion in 2014 to USD473.3 billion in 2018 with a CAGR of 5.6%, accounting for 96.9% of the global mobile phone sales value, and is expected to keep rising at a CAGR of 3.5% before reaching USD562.9 billion in 2023. Also according to the CIC Report, (i) mobile phones using 4G network are estimated to represent the largest proportion of global mobile phone installations, with a share of 55.9%, while mobile phones using 3G and 2G represented 22.8% and 17.6% respectively in 2023; and (ii) mobile phones using 5G network are expected to be available in 2019 in certain countries and rapidly gain popularity before representing 3.8% of the total mobile phone installed base in 2023. 5G is scheduled to be introduced in Japan and Korea by the end of 2019, in China and most western countries by 2020, and in other Asian countries such as India by 2022. We plan to increase resources on R&D not only to develop more models with various features for different markets based on existing technology and standards, we will also attribute resources to conduct R&D on 5G mobile phones to ensure we can adapt to the market change.

Further, the application of IoT become common in the PRC and worldwide, in aspects varied from consumer electronics (such as smart house appliances, fitness trackers, thermostats, cameras), utilities (such as intelligent water/electricity meters, smart street lights, smart fire hydrants), automotive (such as manufacturing process tracking as well as a service component connecting vehicles to the internet). According to the CIC Report, the market demand for IoT related products will be driven by the following factors: (i) supportive governmental policies (for the PRC market) including Guidance on Further Expanding and Upgrading China's Information Consumption Industry, and Stimulating Potential Domestic Demand in this Industry\* (《關於進一步擴大和升級資訊消費持續釋放內需潛力的指導意見》), Outline of the 13th Five-year Plan for the National Economic and Social Development of the PRC\* (《中華人民共和國經濟和社會發展第十三個五年規劃綱要》), Action Plan for Pilot Demonstrations of Intelligent Manufacturing in 2016\* (《智慧製造試點示範2016專項行動實施方案》), Made in China 2025\* (《中國製造2025》) and Guiding Catalogue for Foreign-funded Industries (2015 revision)\* (《外商投資產業指導目錄(2015年修訂版)》); (ii) investments made by the PRC's telecommunication operators and electronics companies in the IoT industry, such as the investment of RMB29.5 billion by China Unicom on NB-IoT/eMTC related fields and the more than USD6 million investment plan announced by Huawei in 2019 on R&D of IoT related field; (iii) rising demand for consumer electronics; (iv) IoT's important role in developing smart cities which has been viewed as a key strategy to promote industrialisation, informatisation and urbanisation; and (v) high demand for the Internet of Vehicles (network connected cars that share digital information between businesses, organisations, infrastructures, people and things). It is estimated that 35.1 billion IoT devices will be connected by 2023, reflecting a CAGR of 30.4% from 2018 to 2023, excluding consumer communication devices such as smartphones and tablets.

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Riding on our capability in developing mobile telecommunication devices, we developed and supplied smart lock PCBAs to a shared bicycle company in the PRC in 2017 which contributed RMB124.5 million of revenue in FY2017. Smart lock is an example of NB-IoT product. NB-IoT is a low power wide area network radio technology standard enabling a wide range of new IoT devices and services. NB-IoT significantly improves the power consumption of devices, system connection capacity and range of coverage. Major application scenarios of NB-IoT include smart city (intelligent water/electricity/gas meters, smart street lights, smart fire hydrants, driving recorder, etc.), smart home (smart lock, smart air-conditioner, smart refrigerator, person/pet tracker, etc.), smart retail (POS machines, digital advertising boards, vending machines, electronic monitor, etc.), industrial-use devices (gas detector, manufacturing real-time data collector, supervisory monitor, etc.). According to the CIC Report, promoted by government's policies and regulations in the PRC and huge amount of capitals on NB-IoT technologies invested by telecommunication operators and electronics companies, the number of NB-IoT connected devices is anticipated to reach 2.3 billion as of 2023, representing a CAGR of 78.1% from 2018 to 2023. We will continue our R&D on IoT related products to enrich our product offering and increase our revenue drivers. We plan to focus on developing various NB-IoT products which we believe to be with market demand. These includes tracker series with real-time reporting position to be carried by the elderly, children and pets, sensor series to be applied to warehouses and various equipment for industrial use, and vehicle terminal series to be installed in the vehicles to record the driving route and speed and enhance the driving safety. We will also develop other IoT products which may support 4G network, such as smart study machine series and smart payment and advertising terminal series. In March 2019, we successfully entered into framework sales agreement with Ant Financial (Hainan) Digital Technology Limited Company\* (螞蟻金服(海南)數字技術有限公司, "Ant Financial") for product validation and supply of Ali-POS (point of sales) devices supported with facial recognition feature (face ID). Ant Financial is a subsidiary of Zhejiang Ant Micro Financial Services Group Co., Ltd\* (浙江螞蟻小微金融服務集團股份有限公司, formerly known as Zhejiang Alibaba E-commerce Company Limited\* (浙江阿里巴巴電子商務有限公司)), who operates Alipay, a worldwide mobile and online payments platform. From May 2019 to July 2019, our revenue attributable to the provision of the IoT products to Ant Financial amounted to RMB40.3 million.

We plan to strengthen our R&D capabilities through the following avenues:

- expanding our R&D team through employment or, if appropriate opportunity arises, through acquiring independent software or hardware design house with experienced engineers who could help enhance our capability in (i) software and hardware optimisation, i.e. to improve the performance of the display, audio mobile and camera module which has become popular functionalities to smartphone users when selecting mobile phones; (ii) design and develop models for 5G mobile phones; and (iii) R&D and validation of IoT related products; and
- acquiring additional testing machines for testing of the quality of the raw materials and mobile phones, which include for example testing equipment for mobile chipsets, display modules, screens, connectivity and durability of mobile phones to facilitate efficient and cost effective quality testing process while reducing the need and cost to engage external testing labs.

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Our Directors believe the future growth would primarily be driven by future migration to 5G mobile devices and the potential explosion of demands in IoT related products. Hence, we will apply part of our net proceeds to acquire machines for strengthening our R&D capability on 5G mobile phone products and IoT related products and employ additional R&D staff. For details, please see “Future plans and use of proceeds” in this prospectus.

### **Expand our production capacity**

According to the CIC Report, the majority of PCBA manufacturers are ODMs/OEMs, and the PCBAs they produced are mainly used in their own factories as components of their final products. Also according to the CIC Report, China is the world’s largest PCBA manufacturing country, with a market size of USD51.1 billion in 2018, taking a 48.9% share in 2018. China’s PCBA market size increased from USD45.9 billion in 2014 to USD51.1 billion in 2018, reflecting a CAGR of 2.7%. It is forecasted to reach USD60.9 billion in 2023, with a CAGR of 3.6% from 2018 to 2023, making up 50.4% of the global market.

We used to outsource all the assembly work of smartphone PCBAs which was one of our major products and an important module of smartphone. To enhance cost and production efficiency, we established our Luzhou Plant which is equipped with four SMT lines and commenced its production in April 2018 with annualised production capacity of 2.5 million pieces of PCBAs. Due to cost efficiency, we generally produce PCBAs for smartphones rather than feature phones. In FY2018, the total volume of smartphone PCBAs we consumed was 8.6 million pieces, including PCBAs sold as stand-alone products and embedded in our smartphones. Based on our current annualised production capacity, we may still have to outsource the assembly work of a large portion of smartphone PCBAs to EMS providers. We hence plan to apply part of our proceeds to equip two more SMT lines and employing more labour to support the in-house supply of PCBAs in our Luzhou Plant to reach an annual production capacity of 3.8 million pieces of PCBAs. We expect to achieve better quality control of our products, and more efficient and cost-effective management of our production operation.

### **Upgrade our ERP system to further enhance our management standards**

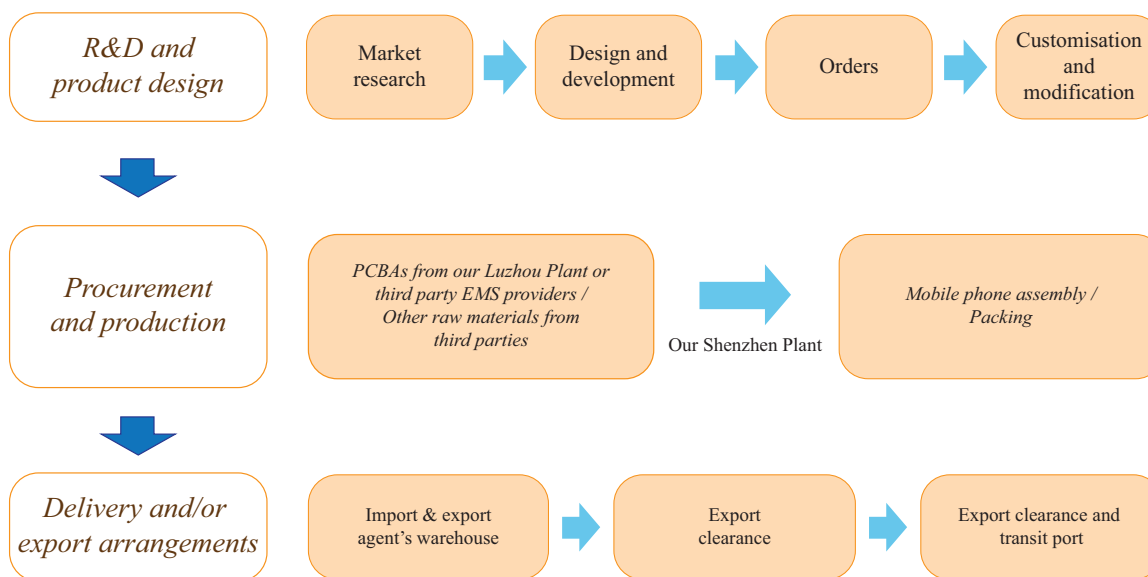
We maintain quality management in various aspects including product development, procurement management, production management and financial management.

To maintain and further enhance our capability and efficiency of overall management, we plan to apply part of our proceeds from the Global Offering to upgrade our computer hardware, design software and ERP system to link up and support product design, costs and budgeting, procurement, production planning, inventory monitoring, quality control and financial reporting functions.

As our business grows, we believe that enhancement of overall management could (i) promote production and costs efficiency and customer satisfaction as a whole and (ii) facilitate our management team to formulate strategic planning, promptly react to market change and oversee the business implementation progress effectively, enabling us to stand out from other competitors.

**OUR BUSINESS MODEL**

The below diagram illustrates our current business model:



**R&D and product design**

We begin by conducting market research to understand the customers’ needs and research and development on the latest mobile telecommunication technology. Whenever there are any new software platforms, breakthrough development of mobile telecommunication standards (e.g. 4G, 5G) or advancement in mobile chipsets, our R&D team will work on the software and hardware integration with an aim to optimise the performance of hardware and software in a mobile phone. We also work on outlook design of the products.

We are capable of offering a wide range of mobile phones with various specifications and functionalities. We formulate and update our product roadmaps from time to time setting out our products offerings which serve as a preview of our newly launched products. For existing customers, we introduce our new models and/or newly acquired capability through emails regularly. Our sales team will conduct face-to-face meetings with customers to introduce our new models. We also participate in various international exhibitions i.e. CES (Consumer Electronics Show) and Mobile World Congress to promote our products to potential new customers. Customers may order mobile phones based on existing designs or will request for modifications based on our original design or design for new models.

After our sales persons communicate client’s requests with our R&D team, our R&D team will then consult with our procurement and production management team who will check on the availability and cost of the raw material and our production capacity to assess whether we will be able to deliver the products on time. We quote prices based on a range of factors, including our cost, the quotations of our market competitors and our customer strategies. For models we previously produced, we produce bill of materials for reference and take into



account the market price of the raw materials. For models to be developed, we assess the raw materials to be used and take into account the market price of the raw materials. We also consider the outsourcing costs and complexity of the designs and the expected margins for the price setting. Sales invoice or purchase order then follows.

Our sales team is responsible for establishing the project summary which sets out the specifications in mobile phones required by the customer i.e. the operating frequency, hardware platform, mobile chipset, memory, outlook, mobile telecommunication standard, display module, camera module, battery, the brand name to be used, expected size of the order and packaging requirements. The project summary will be reviewed and approved by the R&D team, product manager, sales manager and the general manager. Throughout our internal approval process, our sales team regularly communicates with our customers to ensure consistency with customers' requirements.

Our R&D team works on hardware and software design and engineering of the products based on the specifications required by our customers. We communicate with and receive feedbacks from customers throughout the whole process of design and customisation and modification of a product. We arrange delivery of a prototype to our customers for their testing and confirmation, or feedbacks. If certain product standard certifications are required and specified by our customers, we will send prototypes to the recognised independent third party laboratories or institutions which issue the relevant certifications.

We also design the packaging and prepare the user manuals of the products for our customers' approval.

### **Procurement and production**

We are responsible for procuring the necessary raw materials including PCBAs, mobile chipsets, display modules, camera modules. We usually place orders for raw materials after our customers confirm order with us. We may place order earlier for raw materials which are of longer lead time or prone to supply shortage based on the sales forecast prepared by the sales and marketing department.

Upon the approval of the prototype by our customers, we proceed with arranging the necessary raw materials for the onward production. Since the commencement of the operation of our Luzhou Plant, we produced some of the PCBAs we consumed at our Luzhou Plant and delivered to our Shenzhen Plant for mobile phone assembly, while we also outsourced a portion of our PCBA and mobile phone assembly work to EMS providers.

We will conduct quality control on the raw materials, semi-finished goods and the finished goods. We have our technical staff on-site to provide production supervision and technical support both in our Luzhou Plant and Shenzhen Plant and our EMS providers' factories. We also have quality control staff on-site to monitor the PCBA and mobile phone assembly process and quality control procedures conducted by our EMS providers. Our customers may also send their authorized persons to conduct quality check of the finished goods prior to delivery.



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### Delivery and export arrangements

After assembly and packaging, the finished goods are sent to the designated place agreed by a third party customs clearance agency we engaged to conduct the export clearance and product delivery procedures for our customers. Sales are recognised when the products are delivered.

### After-sales services

Sales are made on outright basis. Only products with serious quality defects can be returned.

We may offer one to two years product warranty for our products to certain major customers subject to negotiation with our customers. In most cases, our customers provide after-sales services to their own customers and the duration of such warranty varies. We also offer technical supports services to the after-sales team of our customers.

The lead time from the sales invoice or order date to the delivery date involving total new designs is around four to five months. The lead time from the sales invoice or order date to the delivery date involving modified designs based on existing model or repeat orders is around two months.

## OUR PRODUCTS

During the Track Record Period, we primarily offered to our customers: (i) smartphones equipped with complete operating systems, processors, large storages, front-facing and rear-facing cameras and third-party apps; (ii) feature phones with voice calling and text messaging functionality, in addition to basic multimedia and internet capabilities; (iii) PCBAs for mobile phones sold as stand-alone products; and (iv) IoT related products including PCBAs or IoT modules for smart locks and automatic electricity meter readers.

Below is the breakdown of our revenue by product types during the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue
<b>Mobile phones<sup>1</sup></b>								
— Smartphones	584,722	26.9	1,559,760	54.0	2,073,294	70.4	556,264	74.7
— Feature phones	758,899	34.9	676,009	23.4	584,482	19.9	135,463	18.2
<b>Sub-total:</b>	1,343,621	61.8	2,235,769	77.4	2,657,776	90.3	691,727	92.9
<b>PCBAs</b>	748,658	34.5	428,654	14.8	148,895	5.1	4,886	0.7
<b>IoT related products</b>	—	—	140,443	4.9	66,045	2.2	18,799	2.5
<b>Others<sup>2</sup></b>	79,588	3.7	84,792	2.9	71,008	2.4	28,891	3.9
<b>Total</b>	<u>2,171,867</u>	<u>100.0</u>	<u>2,889,658</u>	<u>100.0</u>	<u>2,943,724</u>	<u>100.0</u>	<u>744,303</u>	<u>100.0</u>

*Notes:*

- (1) At the request of our customers, some mobile phone products are delivered in the form of component packs (semi knock-down (SKDs) for mobile phones which include hardware components such as PCBAs, display modules, camera modules) that are assembled and packaged by our customers(s) after being imported to their country(ies), as they consider the importation of finished electronic devices attracts higher taxes than those for components in the relevant country(ies).
  
- (2) Others mainly include revenue from the sales of mobile device components used for after-sales services and the provision of R&D and technical services for mobile phones, PCBAs and cloud related products.

Below are brief introductions of our products:

**Products**

**Description**

Smartphones



— Smartphones refer to mobile phones with complete operating systems, processors, large storages, front-facing and rear-facing cameras, and third-party apps that can be selectively installed to further expand the functions. The comprehensive functions involve satellite navigation, web browsing, mobile payment, entertainment, and so on. Users can operate multiple tasks at the same time, copy and paste, and achieve human-device interaction by pressing the screen or virtual keyboards.

Feature phones



— Feature phones typically provide voice calling and text messaging functionality, in addition to basic multimedia and internet capabilities. They are more affordable, durable, simple-to-use, and suitable for the elderly and the illiterate. They also do better in certain environments and occasions, including places with poor power supply, extreme weather conditions, and in companies with high information security requirements.

#### PCBAs for mobile phones



- Printed circuit board (PCB) is the basic component of the electronic products. Printed circuit board assembly (PCBA) is the process of soldering of electronic components to a PCB. According to the CIC Report, PCBAs can be sold as stand-alone products to downstream users for onward production of various kinds of electronic products for different industries, including communications, computers and consumer electronics, etc.

#### IoT related products



- Internet of Things, which is based on the concept that every object can connect to the internet to exchange information and increase its intrinsic value and embedded with electronics, software, sensors, actuators, etc. According to the CIC Report, they include, for example, smart home appliances, intelligent water/electricity meters, vehicle locators, industrial applications and etc.

#### Smartphones and feature phones

We started to offer feature phones on ODM basis in 2010, where we mainly purchased PCBAs from our suppliers. To keep pace with the technological development and envisaging the rising popularity of smartphones, our R&D team successfully designed and realised PCBAs for smartphones in 2011, and launched our first ODM smartphones in 2012.

Most of our revenue was derived from sale of PCBAs prior to 2016. To meet customers' preferences and along with the gradual smooth operation of our Shenzhen Plant, we shifted our focus to offer mobile phones as our end products in 2016, whereas most of the PCBAs we designed and developed are supplied to satisfy internal needs for fulfilling orders for mobile phones since 2017. During the Track Record Period, revenue attributed to our mobile phones amounted to RMB1,343.6 million, RMB2,235.8 million, RMB2,657.8 million and RMB691.7 million, for each of the FY2016, FY2017, FY2018 and 4M2019, respectively, representing 61.8%, 77.4%, 90.3% and 92.9% of our total revenue during the corresponding periods.

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Nowadays, feature phones are generally perceived as low-end mobile phones whereas smartphones are generally perceived as middle or high-end mobile phones. Our ASP for feature phones during the Track Record Period ranged from RMB39 per unit to RMB91 per unit, whereas the ASP for smartphones ranged from RMB210 per unit to RMB321 per unit during the same period. For each of FY2016, FY2017, FY2018 and 4M2019, the revenue attributed to our smartphone sales accounted for 26.9%, 54.0%, 70.4% and 74.7% of our total revenue, respectively, while the relevant sales volume were 2.8 million units, 6.0 million units, 7.1 million units and 1.7 million units for the corresponding periods.

Customers may request smartphones and feature phones to be delivered (i) in complete form ready for sale or (ii) in the form of component packs which include hardware components such as PCBA, display modules (sometimes referred as “semi knock-down (SKDs)”) for our clients who are located in countries where importation of finished electronic devices attracts much higher taxes than those of components, such as India, Pakistan and Indonesia. Our customers will be responsible for importing the goods into their countries as well as assembling and packaging of the products in their countries.

We design and offer mobile phones with a wide range of technical specifications to meet our customers’ needs in different regions of the world. We offer mobile phones adopting various mobile communication standards including 2G (the second generation of mobile communication standard), 3G (the third generation of mobile communication standard that allows mobile phones, computers, and other portable electronic devices to access the internet wirelessly defined by the International Telecommunications Union) and 4G (the fourth generation of a mobile communications standard intended to replace 3G, allowing wireless internet access at a much higher speed) in GSM, WCDMA and LTE, etc. with different operating frequency applicable to different countries and regions.

Below is the breakdown of our revenue, sales volume and ASP of mobile phones by mobile communication standards during the Track Record Period:

	FY2016			FY2017			FY2018			4M2019			ASP RMB			
	Revenue RMB'000	% of total revenue	Sales volume '000 units	Revenue RMB'000	% of total revenue	Sales volume '000 units	Revenue RMB'000	% of total revenue	Sales volume '000 units	Revenue RMB'000	% of total revenue	Sales volume '000 units				
2G	279,314	20.8	4,412	63	520,935	23.3	9,392	55	562,294	21.2	12,772	44	135,463	19.6	3,451	39
3G	975,194	72.6	6,390	153	970,716	43.4	5,062	192	726,042	27.3	3,403	213	127,754	18.5	586	218
4G	89,113	6.6	358	249	744,118	33.3	2,237	333	1,369,440	51.5	3,936	348	428,510	61.9	1,147	374

*Note:* Sales of each of the 3G and 4G smartphones and 2G, 3G and 4G feature phones include both fully-assembled mobile phones and components pack sales.

Almost all 2G mobile phones are feature phones, whereas 3G and 4G mobile phones are smartphones. The decreasing trend of the ASP of 2G mobile phones during the Track Record Period was mainly due to replacement of feature phones with smartphones driven by preference of end customers. The increase of the ASP of 3G and 4G mobile phones from FY2016 to FY2017 was mainly due to the substantial increase in demand of smartphones due to the extension of the coverage of 3G and 4G network. The increase of the ASP of 3G and 4G mobile

phones from FY2017 to 4M2019 was mainly due to the increase in memory storage and advanced CPU which resulted in higher cost of raw materials and hence the ASP. Our ASP for feature phone for FY2018 and 4M2019 was slightly lower than the industry average factory price which was, to the best information and knowledge of our Directors, primarily due to less advanced specification of feature phones we supplied. ASP for our 3G and 4G mobile phones for FY2018 and 4M2019 were in the range of industry average factory price.

The significant increase in sales of 4G mobile phones in FY2018 was primarily driven by the 4G smartphone orders placed by (i) two new customers in India, who participated in a scheme initiated by the local government to provide free mobile phones to the citizens in Chhattisgarh State, India; and (ii) Condor, a new and the fifth largest customer for FY2018, who is primarily engaged in the manufacturing and trading of various electronic products under its own brand “Condor” in Algeria.

### **PCBAs**

In 2011, we successfully designed and developed our first ODM PCBAs for smartphones and started to export our smartphone PCBAs to emerging markets since then to cater for their increasing needs of smartphones. We design and develop the PCBAs according to the specifications provided by our customers and the various functions our customers desire on their mobile phones. Our PCBAs are either sold as stand-alone products to our customers for their onward production of smartphones or embedded in our self-assembled smartphones and sold to customers as a whole.

Our ASP for PCBAs during the Track Record Period ranged from RMB101 per piece to RMB109 per piece. Due to the swift of our product focus from PCBAs to fully assembled mobile phones during the Track Record Period, our revenue attributed to PCBAs amounted to RMB748.7 million, RMB428.7 million, RMB148.9 million and RMB4.9 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively, representing 34.5%, 14.8%, 5.1% and 0.7% of our total revenue during the corresponding periods, while the relevant sales volume were 7.0 million pieces, 4.1 million pieces, 1.5 million pieces and 45,000 pieces for the corresponding periods, respectively.

### **IoT related products**

According to the CIC Report, it is estimated that 35.1 billion IoT devices will be connected by 2023, reflecting a CAGR of 30.4% from 2018 to 2023, excluding consumer communication devices such as smartphones and tablets. The market volume is mainly driven by three downstream industries: utilities, automotive and consumer electronics. Foreseeing the potential market growth in IoT market, we also devote resources on research and development of IoT related products, and launched our first IoT related products in 2017. Leveraged on our strong R&D capability and our experience in designing PCBAs, since 2017, we have developed over 10 models of IoT related products, which includes PCBAs or IoT modules for smart locks and automatic electricity meter readers.

**SALES AND OUR CUSTOMERS**

As at 30 April 2019, our sales and marketing team comprised over 40 sales personnel led by Mr. Xiong. Our sales and marketing team is responsible for formulating our Group's overall sales strategies, negotiating and finalising sales terms with our customers and exploring new customers.

**Sales**

We are primarily engaged in R&D, designing, manufacturing and sale of mobile phones and PCBAs for mobile phones to both overseas and domestic markets. Our products are mainly sold by our customers under their own or authorised brand names. According to the CIC report, we ranked the 5th amongst all ODM mobile phone suppliers in the PRC with 3.3% market share in terms of unit shipments in 2018.

We have commenced offering our mobile phones to overseas markets in 2010, mainly in the emerging countries. To the best information and knowledge of our Directors, the penetration rate of mobile phones with advanced functionalities in emerging markets has been lagging behind those in developed countries, such as North America and Western Europe.

With the foresight of Mr. Li (one of our founders) that there would be growing demand in mobile phones in emerging markets, we started to focus on establishing and maintaining good business relationship with well-established customers in South Asia and Southeast Asia.

Through the network of Mr. Xiong, our another founder, who gained his experience in sales of mobile phones to overseas markets, we had a chance to serve a then top local mobile phone supplier in India in 2010, which established a good profile for facilitating top branded mobile phone suppliers in India and subsequently in Emerging Asia.

We became one of the pioneers to export feature phones with advanced functionalities to these regions and have established long-term relationship with local branded mobile phone suppliers, telecommunication operators. With the emerging popularity of smartphones, we reap the benefit of early establishment of the relationship with these customers and successfully boosted our sales of fully-assembled smartphones to these countries over the Track Record Period. We recorded an increase in revenue from RMB2,171.9 million for FY2016 to RMB2,943.7 million for FY2018, representing a CAGR of 16.4%.

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### Geographical analysis

The table below sets out the breakdown of our revenue by shipment destinations in the Track Record Period:

	FY2016		FY2017		FY2018		4M2019	
	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue	Revenue <i>RMB'000</i>	% of total revenue
<b>Emerging Asia</b>								
India	1,041,746	48.0	1,519,280	52.6	1,744,915	59.3	210,566	28.3
Thailand	663,621	30.6	409,545	14.2	62,796	2.1	—	—
Pakistan	111,823	5.1	201,342	7.0	188,752	6.4	37,423	5.0
Bangladesh	111,682	5.1	156,691	5.4	192,900	6.6	25,308	3.4
The PRC	110,520	5.1	309,727	10.7	388,606	13.2	289,259	38.9
Vietnam	10,803	0.5	5,630	0.2	—	—	—	—
Sub-total:	2,050,195	94.4	2,602,215	90.1	2,577,969	87.6	562,556	75.6
<b>Other regions</b>								
Algeria	—	—	3,604	0.1	210,280	7.1	156,309	21.0
Dubai	21,670	1.0	70,467	2.4	—	—	586	0.1
Russia and Ukraine	23,486	1.1	51,738	1.8	86,102	2.9	—	—
Others ( <i>Note</i> )	76,516	3.5	161,634	5.6	69,373	2.4	24,852	3.3
Sub-total:	121,672	5.6	287,443	9.9	365,755	12.4	181,747	24.4
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

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

### Our customers

Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in South Asia, Southeast Asia, China and other parts of Asia, Europe, North America and North and South Africa.

#### *Top five customers*

The revenue attributed to our largest customer amounted to RMB654.1 million, RMB771.3 million, RMB714.2 million and RMB174.8 million for each of the FY2016, FY2017, FY2018 and 4M2019, which accounted for 30.1%, 26.7%, 24.3% and 23.5% of our total revenue for the corresponding periods, respectively. The revenue attributed to our five largest customers amounted to RMB1,795.9 million, RMB2,240.6 million, RMB1,847.7 million and RMB540.4 million for each of FY2016, FY2017, FY2018 and 4M2019, which accounted for 82.7%, 77.5%, 62.8% and 72.6% of our total revenue for the corresponding periods, respectively.



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The following tables set forth the information of our five largest customers during the Track Record Period:

### FY2016

Customer	Note	Products sold to customer	Geographical locations of our customers	Revenue generated from the sale <i>RMB'000</i>	% of our total revenue	Credit terms	Commencement year of business relationship
Vivatel	(1)	Mobile phones (3G, 4G) and PCBAs	Hong Kong	654,134	30.1	90 days	2014
Lava Group	(2)	Mobile phones (2G, 3G, 4G) and PCBAs	India/Dubai	622,513	28.7	60 days	2012
Micromax Group	(3)	Mobile phones (2G, 3G) and PCBAs	India	279,308	12.9	60 or 90 days	2011
Intex	(4)	Mobile phones (3G) and PCBAs	India	128,083	5.9	60 days	2011
Digicom QMobile	(5)	Mobile phones (2G, 3G) and PCBAs	Pakistan	111,823	5.1	LC at sight or 60 days	2012
Total:				1,795,861	82.7		

### FY2017

Customer	Note	Products sold to customer	Geographical locations of our customers	Revenue generated from the sale <i>RMB'000</i>	% of our total revenue	Credit terms	Commencement year of business relationship
Micromax Group	(3)	Mobile phones (2G, 3G, 4G) and PCBAs	India/Dubai	771,271	26.7	60 or 90 days	2011
Lava Group	(2)	Mobile phones (2G, 3G, 4G) and PCBAs	India	705,752	24.4	60 days	2012
Vivatel	(1)	Mobile phones (3G, 4G) and PCBAs	Hong Kong	405,505	14.0	90 days	2014
Digicom QMobile	(5)	Mobile phones (2G, 3G)	Pakistan	201,342	7.0	LC at sight	2012
Edison Group	(6)	Mobile phones and (2G, 3G) PCBAs	Bangladesh	156,691	5.4	LC at sight	2013
Total:				2,240,561	77.5		

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### FY2018

Customer	Note	Products sold to customer	Geographical locations of our customers	Revenue generated from the sale <i>RMB'000</i>	% of our total revenue	Credit terms	Commencement year of business relationship
Micromax Group	(3)	Mobile phones (3G, 4G)	India/Dubai	714,202	24.3	60 or 90 days	2011
Lava Group	(2)	Mobile phones (2G, 4G)	India	393,867	13.4	60 days	2012
Customer R	(7)	Mobile phones (3G, 4G)	India	342,355	11.6	90 days	2018
Customer F	(8)	Mobile phones (4G)	India	219,236	7.5	120 days	2018
Condor	(9)	Mobile phones (4G)	Algeria	<u>178,074</u>	<u>6.0</u>	LC at sight	2018
Total:				<u>1,847,734</u>	<u>62.8</u>		

### 4M2019

Customer	Note	Products sold to customer	Geographical locations of our customers	Revenue generated from the sale <i>RMB'000</i>	% of our total revenue	Credit terms	Commencement year of business relationship
EVOC	(10)	Mobile phones (3G, 4G)	the PRC	174,830	23.5	60 days	2014
Condor	(9)	Mobile phones (4G)	Algeria	142,155	19.1	LC at sight	2018
Lava Group	(2)	Mobile phones (2G, 4G)	India	129,851	17.4	LC at 90 days	2012
Customer T	(11)	Mobile phones (4G)	the PRC	49,823	6.7	20% prepayment and 80% 60 days	2019
Micromax Group	(3)	Mobile phones (4G)	India/Dubai	43,731	5.9	90 days	2011
Total:				<u>540,390</u>	<u>72.6</u>		

#### Notes:

- (1) Vivatel Company Limited (“**Vivatel**”), is a private company incorporated in Hong Kong with a paid up capital of HK\$1.48 million who primarily offers the complete mobile electronic solutions including manufacturing, marketing and software development to various electronic product suppliers and telecommunication operators globally including a major Thailand telecommunication operator which is listed on the Stock Exchange of Thailand.
- (2) Lava Group represents a public limited company incorporated in India, Lava International Limited, who recorded a revenue of INR36.6 billion (equivalent to RMB3.6 billion) for the year ended 31 March 2017, and a company incorporated in Egypt, Lava Technologies, who are a well-established mobile phone supplier providing its mobile phones under its brand “LAVA” in India, Egypt and a number of other countries. According to the CIC Report, it ranked the sixth feature phone brand in India in terms of feature phone sales value with market share of 3.0% in 2018.

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- (3) Micromax Group represents two Indian companies, Micromax Informatics Limited and Bhagwati Products Limited with an aggregate revenue of INR65.1 billion (equivalent to RMB6.3 billion) for the year ended 31 December 2018, and a Dubai company, Micromax Informatics FZE, who are ultimately controlled by the same shareholder(s) and supplied mobile phones under the same brand “Micromax” in India. According to the CIC Report, it ranked the sixth smartphone and the fourth feature phone brand in India in terms of sales values with market share of 2.3% and 4.0%, respectively, in 2018.
- (4) Intex Technologies (India) Limited (“**Intex**”), is a public limited company incorporated in India who is a top branded mobile phone, consumer electronics, durables and IT accessories manufacturer under the brand “INTEX” and recorded a revenue of INR28.6 billion (equivalent to RMB2.8 billion) for the year ended 31 March 2018.
- (5) Digicom Trading (Pvt.) Limited (“**Digicom QMobile**”), is a private limited company incorporated in Pakistan with a paid up capital of PKR1.45 billion (equivalent to RMB69.5 million), who is engaged in import and trading of mobile phones and accessories under its own brand “QMobile”. According to the CIC Report, “QMobile” ranked the fifth smartphone brand in terms of smartphone sales value with market share of 3.3% in 2018 in Pakistan.
- (6) Edison Group represents three Bangladeshi private limited companies, Edison Technologies Ltd, Lite Electronics Ltd. and SB TEL Enterprises Limited, who are ultimately controlled by the same shareholder(s), and supplied mobile phones under the brand “SYMPHONY” in Bangladesh with an aggregate revenue of BDT 3.1 billion (equivalent to RMB248.2 million) for the year ended 30 June 2018. According to the CIC Report, it ranked the first smartphone brand in terms of smartphone sales value with market share of 20.4% in 2018 in Bangladesh.
- (7) Customer R is a subsidiary of a listed company on the National Stock Exchange of India with the revenue in retail sector of INR1,305.7 billion (equivalent to RMB126.9 billion) for the year ended 31 March 2019 (collectively, the “**Customer R Group**”). Customer R operates chain of convenience stores, supermarkets, wholesale cash and carry and specialty stores including the largest consumer electronics store chain in India. According to the CIC Report, Customer R Group’s branded feature phone ranked the first feature phone brand in terms of feature phone sales value with market share of 39.7% in 2018 in India.
- (8) Customer F represents a private limited company incorporated in India and a private limited company incorporated in Hong Kong who are subsidiaries of a listed company on Nasdaq. The relevant listed company is a globally-recognised provider of innovative design, engineering, manufacturing, and supply chain services and solutions in respect of various products including electronic products with the revenue of USD25.4 billion (equivalent to RMB169.3 billion) for the year ended 31 March 2018.
- (9) SPA Condor Electronics (“**Condor**”) is a private joint stock company incorporated in Algeria, who is primarily specialised in the manufacture and trading of various products under its own brand “Condor”, which includes electronic equipment and home appliances, computers and etc, with the revenue of DZD88.9 billion (equivalent to RMB5.0 billion) for the year ended 31 December 2016. According to the CIC Report, it ranked the first smartphone brand in terms of smartphone sales value with market share of 49.9% in 2018 in Algeria.
- (10) EVOC Intelligent Technology Company Limited (“**EVOC**”, 研祥智能科技股份有限公司), is a company listed on the Stock Exchange, who is primarily engaged in the sale of mobile phones and accessories, special computer products and computer components in the PRC. EVOC recorded a revenue of RMB1.4 billion for the year ended 31 December 2018.
- (11) Customer T, is a private limited company incorporated in the PRC, who is primarily engaged in manufacturing and research and development of the wireless networking products and accessories, with the revenue of RMB11.4 billion for the year ended 31 December 2017.
- (12) INR, PKR, BDT and DZD refer to the lawful currency in India, Pakistan, Bangladesh and Algeria, respectively.

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- (13) During the Track Record Period, our revenue attributable to the PRC customers increased. Our major PRC customers during the Track Record Period include (i) EVOC; (ii) Customer T; (iii) TCL Communication Group, a well-established branded mobile phone supplier in the PRC, which represents a Hong Kong incorporated company TCL Communication Limited, and a PRC incorporated company, Huizhou TCL Mobile Communication Co. Ltd\* (惠州TCL移动通信有限公司) who are subsidiaries of a company listed on the Shenzhen Stock Exchange, one of the largest consumer electronics enterprises in China with a global presence; (iv) Customer D is a private limited company incorporated in the PRC, who is primarily engaged in the provision of business management consultancy services relating to computer software and network technology while offering data processing and integration services, with the revenue of RMB 1.0 billion for the year ended 31 December 2018; (v) China Mobile Group, represents a limited liability company incorporated in the PRC, China Mobile Group Device Co., Ltd.\* (中國移動通信集團終端有限公司), and a private company limited by shares incorporated in Hong Kong, China Mobile Group Device Co., Ltd.\* (中移物聯網有限公司), who are two subsidiaries of a company listed on the Stock Exchange and New York Stock Exchange.
- (14) Most of the background information above relating to our five largest customers during the Track Record Period was obtained from an independent search agent engaged by our Group. To the best knowledge of our Directors after making reasonable enquiries, the information stated is the most recent data available to the independent search agent.

We generally require payment by telegraph transfer or letter of credit for our major customers with credit term from 30 days to 90 days. We may also require 5% to 30% deposit by telegraphic transfer after taking into account of the a number of factors including the order size, the length of relationship and the credibility of the relevant major customer.

To the best knowledge of our Directors, none of our Directors and their respective close associates or any of the Shareholders holding more than 5% of our Company's share capital as of the Latest Practicable Date has any interest in any of our five largest customers during the Track Record Period.

### **Customer concentration**

During the Track Record Period, sales to our five largest customers accounted for 82.7%, 77.5%, 62.8% and 72.6% of our total revenue for each of FY2016, FY2017, FY2018 and 4M2019, respectively. In the corresponding periods, our revenue attributed to our customers in India represents 48.0%, 52.6%, 59.3% and 28.3% of our total revenue. To reduce over reliance on India, we diversified our customer base and geographical coverage in other countries, such as North Africa and China. As compared with the previous three years, the proportion of our revenue contribution from India for 4M2019 declined because the competitive landscape in India was becoming more challenging. We successfully implemented our sales diversification strategy and we recorded a significant increase in revenue from Algeria and the PRC for 4M2019 as compared with 4M2018.

For the relevant risks involved, please see “Risk factors — We had a concentration of customers during the Track Record Period and any decrease or loss of business from these major customers could adversely and substantially affect our operation and financial conditions” and “Risk factors — Challenges or downturn in economic conditions or political and regulatory uncertainties of emerging markets, in particular, India, may affect the demand for our products which could adversely affect our sales or growth” in this prospectus.

### ***Reasons for our customer concentration***

Our Directors consider that our customer concentration during the Track Record Period is contributed by a combination of the following key factors:

*(1) Our Group is able to maintain a stable relationship with our major customers*

As at the Latest Practicable Date, our Group maintained over five years business relationship with the majority of our top five customers. We maintained our customers' loyalty through providing one-stop vertically integrated ODM services, which, our Directors believe, offers all-around solutions to satisfy our customers' customised needs. During the Track Record Period, we did not have any material dispute regarding our product quality with our top five customers.

*(2) Our Group strategically focused on India and other emerging markets, which have growing demands and high population*

Since our establishment in 2009, we strategically target emerging markets with large population and low mobile phone penetration rate, in particular India. India is the second most populated country in the world with nearly a fifth of the world's population. According to the CIC Report, India's mobile phone unit shipments rose from 210.7 million units in 2014 to 289.9 million units in 2018, representing a CAGR of 8.3%, and are expected to increase to 410.2 million units in 2023 at a CAGR of 7.2%. During the Track Record Period, two to four out of our top five customers were from India, in particular, Lava and Micromax have been our top five customers for FY2016, FY2017, FY2018 and 4M2019. According to the CIC Report, Lava ranked the fourth for the feature phone brand in India, and Micromax ranked the sixth for the smartphone brand and the sixth for the feature phone brand in India, each in terms of unit shipments in 2018. Our Directors believe we had built up our business network and good reputation in India market which fostered our foundation to maintain our market share and revenue therefrom.

### ***Sustainability of our business model***

Our Directors believe that our business model is sustainable despite such customer and market concentration due to the reasons as below:

*(1) India is still a vast and fast growing market*

According to the CIC Report, India is projected to be the world's most populous country by 2024, and India's mobile phone unit shipments are expected to increase to 410.2 million in 2023 at a CAGR of 7.2%, and smartphone unit shipments experienced an incredible rise, increasing from 79.5 million units in 2014 to 145.1 million units in 2018, representing a CAGR of 16.2%, and are expected to further increase to 268.5 million units in 2023 with a CAGR of 13.1%. Our Directors believe that we would be able to leverage on our abundant experience in the India market to strive for maintaining the market share there.

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*(2) Our one-stop vertically integrated ODM services is not only a key factor of our stable business relationship with existing customers but also a competitive strength for broadening our customer base and geographical coverage*

Most of our major customers, including not only customers in India but also from other countries such as Bangladesh and Pakistan, had long-standing business relationship with us. Our strong R&D and adaptive design capabilities enable us to meet the various needs of not only our existing customers but other potential customers. Since the commencement of our own mobile phone production in 2014, we have successfully increased the number of our customers from 17 in 2014 to about 75 in 2018. We will continue to endeavor to broaden our customer base and geographical coverage as well as secure new business from our major customers, which enhances our profit-earning and industry recognition in the long run. In 2018, we have tapped into the North Africa market and has established relationship with a local branded electronic product supplier. For 4M2019, the proportion of our total revenue derived from the North Africa market increased to 21.0% from 7.1% for FY2018.

Our Directors believe that if there is diminishing volume of orders from the top five customers, we are still able to secure alternative orders from existing customers and solicit new customers to replenish our order book.

*(3) We have been expanding our product coverage to new electronic products where our PCBAs capability can be applied*

We are actively expanding the application of our PCBAs through developing PCBAs that are applicable to other electronic products. Leveraged on our strong R&D capability and our experience in designing PCBAs, since 2017, we have developed over 10 models of IoT related products. When our IoT related products offerings are expanding, we will also diversify our customer base to cover telecommunication operators in China.

We will continue to increase our level of participation in the product development for potential customers in new industries to diversify our source of revenue and bring more earnings to our Group. By doing so, our reliance on top five customers or customers from India would be reduced.

### **Pricing policy**

We price our products on cost-plus basis as well as considering product model, market price, market condition, production cost and our relationship with the customers. For models we previously produced, we make reference to material costs and make adjustments for the current market price for the same materials. For models to be developed, we assess the materials cost now and adjust for possible price fluctuation. In both cases, we also take into account of the outsourcing costs and complexity of the designs and the expected margins.

**Credit control policy**

We adopt a stringent credit control policy on our accounts receivables. We generally require full payment by telegraphic transfer or accept letter of credit. We may also require 5% to 30% deposit after taking into account of a number of factors including the order size, the length of relationship and the credibility of the relevant customers. For tailored IoT related products, we may request up to 80% deposit from our customers.

We also grant credit period to certain customers. The credit term must be approved by both of our sales manager and finance manager before the credit terms were granted. Factors to be taken into account for granting such credit terms include, among others, the business scale, credit worthiness, the length of business relationship as well as potential business opportunities with our customers. During the Track Record Period, we have generally granted credit terms from 30 to 90 days credit period, in particular for those customers who we would like to build up long-term relationship with. We would grant an extended credit period to some of our customers on a case-by-case basis at the request of our customers. The factors we consider include, among others, the length of business relationship and historical credit record of our customers. Our average trade and bills receivables turnover days are 26.3 days, 32.8 days, 41.0 days and 75.9 days for each of FY2016, FY2017, FY2018 and 4M2019, respectively, which fell within the range of the credit terms granted to our customers and matched with our credit policy.

For the purpose of risk management, we maintain export credit insurance policies to lower our credit risk since April 2017. Our customers of export sales mainly settle by letter of credit and our Directors consider that the associated credit risk is low. The export credit insurance purchased by our Group is mainly used to cover the credit risk associated with our customers' payment by telegraph transfer. As at the Latest Practicable Date, we maintained export credit insurance policy of insured amount of USD20 million with maximum compensation amount of up to USD4 million, covering 90% of the losses incurred for business risks, political risks, delay in payments, winding up of debtors unless otherwise provided under the insurance policy for the relevant customers. The total export credit insurance expenses incurred amounted to nil, RMB0.6 million, RMB0.8 million and RMB1.4 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively.

We assess impairment of our accounts receivables based on our analysis of collectability and aging status of the receivables from time to time on case-by-case basis. In determining whether impairment is required, we take into account the aging and recoverability of the accounts receivables. No impairment loss allowance was recognised for FY2016 and FY2017 under HKAS 39, while impairment loss allowance of RMB0.8 million and RMB0.4 million were recognised through profit/loss for FY2018 and 4M2019 under HKFRS 9, respectively.

**Sales recognition, product return and warranty**

We recognise our sales upon delivery of the products. The product can only be returned in case of serious quality defect.



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We generally warrant to our customers that our products are safe for use and compliant with all relevant laws and standards required by our customers, failing which we may be responsible for repair or return of the defective products in case we are unable to resolve the quality issues.

In most cases, our customers offer after-sales services to their own customers. We may, upon customers' request, provide 1% to 2% of additional products, components and accessories to our customers for the after-sales services they provide to the end users for free or at a price agreed by our customers. We also offer technical support services to the after-sales team of our customers.

We will liaise with our customers for quality issue on our products. The products will be sample tested by our quality inspectors stationed at our production bases before shipment. Some of our customers may also send personnel to conduct testing on site. In case our customers' request for product return, our engineers will visit the customers' site to conduct checking and solve the problem to the extent possible. If the problem cannot be solved and it is confirmed that there is a design or manufactory defect, the products may then be returned for replacement or repair. If the defect is caused by particular components or parts, we may seek compensation from our suppliers pursuant to the terms of the relevant supply agreements.

During the Track Record Period, we have not experienced any material product returns from our customers in relation to the quality of our products. We had only one product quality incident reported by one customer which was due to the defective screens provided by our supplier in 2016. We sent our engineers to our customer's site to provide technical assistance and replaced the defective components. The supplier and us beared RMB2.0 million and RMB1.5 million for the cost of such incident, respectively. As at the Latest Practicable Date, such incident has been settled and we maintain good business relationship with this customer who continued to place orders with us after the incident.

Saved for the above, during the Track Record Period and up to the Latest Practicable Date, we have no material dispute arising from or in connection with the quality of our products. Our Directors consider that the quality of our products are generally stable and no provision for product return had been made during the Track Record Period.

### **Seasonality**

We are exposed to seasonality on the sales of our products. We generally record higher sales during the second half of the year. This is because (i) end-consumers generally spend more during the holiday season, which occurs in the second half of the year; and (ii) PRC manufacturers would put a halt to mass production during the Chinese New Year, and therefore our customers would place more orders in December to ensure that they have sufficient inventories to satisfy the consumer demand in the first quarter of the coming year.

### **Agreements relating to sales**

We enter into framework sales agreements with some of our customers subject to negotiations with our customers. Sales are confirmed by sales agreements or purchase orders from time to time.

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We set out below the typical terms contained in our framework sales agreements and/or purchase orders which are legally binding:

Agreement duration	Two or three years. Some of them have automatic renewal clause.
Main provisions	We provide our products on ODM basis according to the specification provided in the purchase order.
Price	The price will be set out in the purchase order from time to time.
Warranty	We ensure our products are safe for use by end users and are compliant with all applicable laws and the standards as specified in the purchase orders.
Payment term	We generally require payment by telegraphic transfer or letter of credit.
Minimum purchase commitment	No agreed terms on minimum purchase commitment.
Product standards and liabilities	The customers shall inform us of the product standards and/or certifications required in the relevant territory when placing the relevant orders of products with us. We shall supply our products in accordance with relevant standards and obtain the relevant certifications at the instruction of the customer.
Intellectual property rights	We acknowledge that our products including all technologies, hardware and software which is being supplied to our customers do not infringe any intellectual property rights of any third party.
Termination clause	The framework agreements may be terminated upon the expiry date or by any party at any time by serving prior written notice or mutual consent by the parties.

We generally do not sell our products directly to the retail consumers but instead, we deliver our products to our customers primarily on FOB (Hong Kong) in accordance with our customers' specifications for shipment worldwide, which means our Group, as seller, pay for transportation of our products to Hong Kong port plus loading costs while our customers, as buyers, pay the cost of freight transport, insurance, unloading and transportation from the port of shipment to the final destination. The passing of risks occurs when our products are loaded on board at the port of shipment. Our titles in property and risk of the products sold to overseas customers are passed to the

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overseas customers when the products are delivered to the forwarder located in Hong Kong. We are responsible for the administrative procedures for the export of most of the products from China, where our customers were responsible for the procedures for customs entries of the products into their local countries and payment of import duties, if any.

### *Marketing*

Sales leads are usually generated through our marketing activities, as well as referrals from our suppliers and customers.

We participate in various international exhibitions and trade fairs to showcase our products and increase our exposure in the market. These include for example, International Consumer Electronics Show (CES, a global consumer electronics and consumer technology tradeshow) in Las Vegas and Mobile World Congress in Barcelona, Spain.

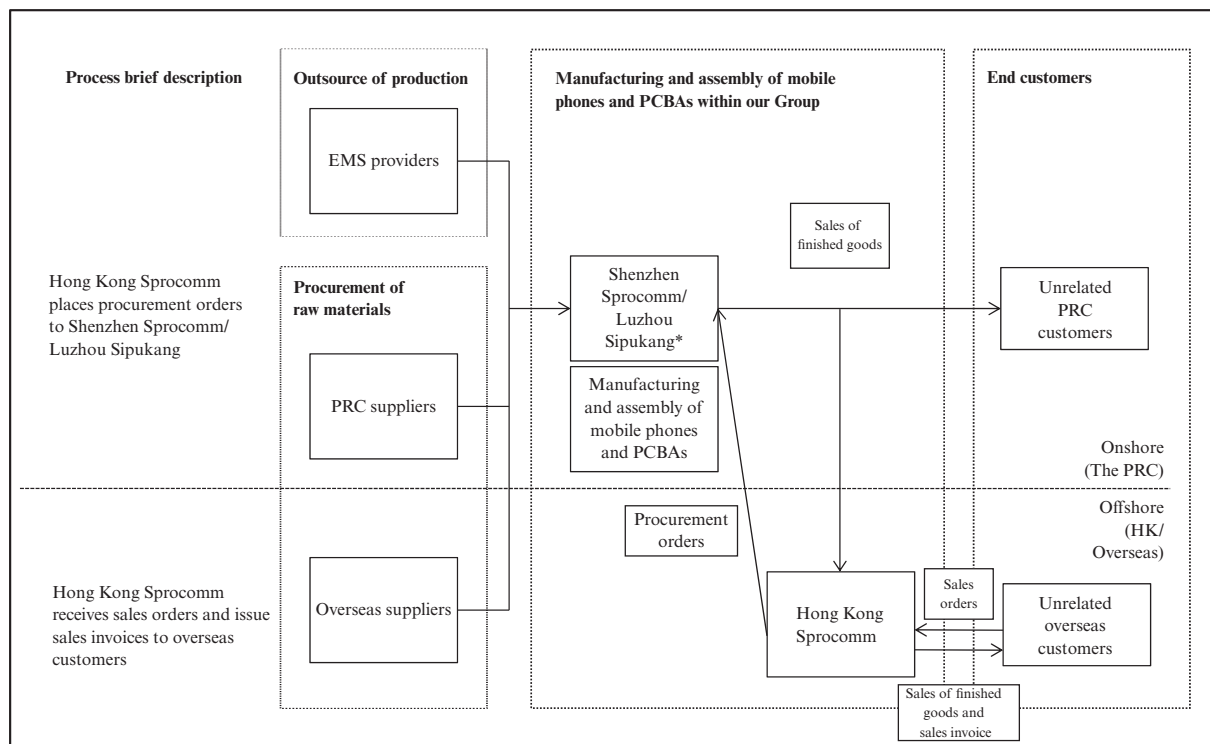
We also identify potential customers in different countries and regions and proactively seek referrals by our major chip suppliers who have good business connections in global mobile communication industry of our targeted customers.

### **Transfer Pricing**

During the Track Record Period, Shenzhen Sprocomm, one of our major operating PRC subsidiaries, procures raw materials and components from various suppliers in the PRC for manufacturing and assembly, and sells a substantial portion of the finished products including smartphones and feature phones to HK Sprocomm, its wholly-owned Hong Kong subsidiary, for onward sales and shipments to overseas customers. Since 2018 upon commencement of production of our Luzhou Plant, Luzhou Sipukang, a wholly-owned subsidiary of Shenzhen Sprocomm, procured raw materials and components from various suppliers in the PRC for PCBAs manufacturing and started selling PCBAs through HK Sprocomm to overseas customers as well. Depending on our production capacity and the delivery time requested by our customers, we outsource part of our PCBA and mobile phone assembly process to certain EMS providers who are specialised in SMT production and/or assembling of mobile phones. In 2016, we set up India Sprocomm for the provision of customer services and after-sales technical support and maintenance

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services as may be required by customers in India from time to time. The following graph sets forth the logistic flow of goods and business arrangements of our intra-group transactions during the Track Record Period:



\* Luzhou Sipukang sells some of the finished goods to Hong Kong Sprocomm commencing from FY2018.

Our PRC Legal Advisers opined that, pursuant to the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)) (the “**STA Rules**”), transactions within the abovementioned Group companies were regarded as related party transactions that should be in compliance with the arm’s length principle. Companies engaged therein shall submit annual related party transactions reporting forms (年度關聯業務往來報告表) to their supervising tax authorities in its EIT annual returns. Please see “Regulations — Laws and regulations on taxation — Transfer pricing” for detailed rules and regulations. As advised by our PRC Legal Advisers, our Group has reported and made related filings with regards to such business transactions arrangements to their supervising tax authorities for each of FY2016, FY2017 and FY2018, respectively.

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In addition, our Group has engaged the Tax Advisers to conduct a transfer pricing study on our intra-group cross-border transactions between HK Sprocomm with Shenzhen Sprocomm and Luzhou Sipukang, respectively. In conducting such study, the Tax Advisers have performed the following procedures:

- reviewed the mode of manufacturing and trading operations of our Group;
- discussed with the management of our Group to understand the functions and risks taken up by our Group companies;
- reviewed the financial results, Hong Kong profits tax, PRC EIT filing records and correspondences with relevant tax authorities;
- checked against prevailing transfer pricing rules in HK and the PRC; and
- collected and screened relevant samples of pricing data of companies operating in similar industries or carrying on similar mode of business from a world-recognised database in transfer pricing aspect, and conducted benchmark checking with that performed by HK Sprocomm, Shenzhen Sprocomm and Luzhou Sipukang.

According to the EIT Law and SAT Announcement [2017] No. 6, various transfer pricing methodologies can be accepted to analyse whether a related party transaction is conducted on an arm's length principle, including comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, profit split method and other methods.

Pricing terms of Shenzhen Sprocomm for sales of its products are determined based on the selling price fixed by Hong Kong Sprocomm with its overseas customers less an amount which is equivalent to less than 2% of Hong Kong Sprocomm's gross profit for covering its operating, general and administrative expenses incurred. Under this arrangement, Hong Kong Sprocomm's gross profit margin was restricted and resulted in lower profitability than Shenzhen Sprocomm. Our transfer pricing policies were reviewed from time to time to ensure that the intra-group transactions comply with the arm's length principle.

Shenzhen Sprocomm is subject to slightly lower EIT tax rate of 15% as it is a new and high technology enterprise while Hong Kong Sprocomm is subject to 16.5% profits tax rate. Since Hong Kong Sprocomm derived lower profitability than Shenzhen Sprocomm for FY2016 to FY2018 and incurred accounting loss for FY2016, we regard Hong Kong Sprocomm to have higher transfer pricing adjustment possibilities compared to Shenzhen Sprocomm and thus should be the benchmarking target of arm's length principle for FY 2016, FY2017 and FY2018.

In this regard, the Tax Advisers examined the gross profit of Hong Kong Sprocomm and divided that by its operating expenses to derive a general indication of the company's profitability and financial health, and compared the result with comparable independent third parties.

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In the case of a formal transfer pricing adjustment exercise, where mutual adjustments should be agreed upon by the supervising tax authorities in the PRC and Hong Kong, the overall mutual adjustments involving Hong Kong Sprocomm, Shenzhen Sprocomm and Luzhou Sipukang would result in a net income tax repayable from the PRC supervising tax authorities of US\$105,000 for FY2016 and US\$116,000 for FY2018. As such, the subject related party transactions did not appear to have caused any reduction, avoidance or evasion of income tax from transfer pricing perspectives.

The Tax Advisers concluded that, based on the findings of their study and should there be any corresponding tax adjustment by the relevant tax authorities, by adopting internationally accepted approach: (i) for FY2016, the overall tax implications for our Group for cross-border related party transactions would be a net tax repayable of US\$105,000; (ii) for FY2017, there were no material irregularity from tax prospective for HK Sprocomm; and (iii) for FY2018, the overall tax implications for our Group would be a net tax repayable of US\$116,000. Our Directors are aware of the transfer pricing laws and regulations of the relevant jurisdictions and since there was no enquiry or investigation initiated by any tax authority in the PRC and Hong Kong during the Track Record Period and up to the Latest Practicable Date, it is unlikely that transfer pricing adjustment would be conducted by the tax authority in the PRC or Hong Kong.

In light of the above, the Tax Advisers confirm that the subject related party transactions did not appear to cause any avoidance or evasion of income tax from transfer pricing perspectives, and are of the view that the risk that HK Sprocomm being challenged of its tax positions by the Hong Kong tax authorities is considerably limited. Furthermore, in light of the net tax repayable situation, the Tax Advisers also foresee that the PRC tax authority is not likely to initiate transfer pricing adjustments on Shenzhen Sprocomm or Luzhou Sipukang with respect to their related party transactions with HK Sprocomm.

As at the Latest Practicable Date, our Directors were not aware of any outstanding enquiry, audit or investigation by any tax authorities with respect to our transfer pricing arrangements. Based on the foregoing and as advised by our Tax Advisers, our Group is in compliance with the applicable transfer pricing laws and regulations in material respects in both the PRC and Hong Kong.

To ensure ongoing compliance with the relevant tax laws and regulations in Hong Kong and the PRC, our financial controller, Mr. Liu Shangheng, will continue to be responsible for monitoring the due preparation of the relevant transfer pricing related reports, reviewing tax returns prepared by group companies to identify any discrepancy regarding intra-group transactions before submitting to relevant tax authorities and ensure all the tax returns are properly filed and maintained for inspection, observing filing deadlines, reviewing on a regular basis, if any transfer pricing issues arises with reference to the transfer pricing study report provided by the Tax Advisers, the relevant transfer pricing laws and regulations in Hong Kong and the PRC and, where appropriate, consult further advise from professional tax advisers.

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### RESEARCH, DEVELOPMENT AND DESIGN

We take pride in having a dedicated R&D team consisting of more than 280 staff led by Mr. Li Hongxing, director of our product R&D department, who has over 10 years of relevant experience in the mobile communication industry as at the Latest Practicable Date. Our R&D team includes experienced electronics, mechanical, software, driver and testing engineers. To ensure the quality of our R&D staff members, we usually require a degree in electronic information, systems engineering, computer science, industrial design or related disciplines and a probation period of six months.

The breakdown below illustrates the composition of the R&D department by functions as at the Latest Practicable Date:

<b>Specific function in R&amp;D department</b>	<b>Number of staff</b>
Chief engineer and R&D project managers	59
Software engineers	102
Hardware engineers	30
Driver engineers	38
Testing and quality control engineers	31
Industrial and structural designers	<u>22</u>
Total	<u><u>282</u></u>

Majority of our R&D staff have received a relevant bachelor degree, while about 30 of our R&D staffs have a relevant master degree. We value their dedication to mobile phone technology R&D and innovative ideas to the design and engineering aspects of mobile phones.

To the best information and knowledge of our Directors, as China has been responsible for a large proportion of the mobile phone production and the mobile telecommunication technology in the PRC and certain developed countries is ahead of those in many emerging markets, our PRC-based R&D team has been keeping pace with latest development of the technology. Our R&D team has mastered the designs for 4G smartphones and is capable of offering these products to our clients in developed countries. On the other hand, we are also in an advantageous position to design and tailor make mobile phones with conventional technology and components and is capable of providing the popular functions such as high definition LCD screen, high resolution camera and high speed internet browsing for customers in emerging markets (where 2G or 3G mobile phones are still in dominant position) with less efforts.



**Material technology and technical know-how**

Whenever there are any new software platforms, breakthrough development of mobile telecommunication standards (e.g. 4G, 5G) or advancement in mobile chipsets, our R&D team will work on the software and hardware integration with an aim to optimise the performance of hardware and software in a mobile phone. We also work on outlook design of the products.

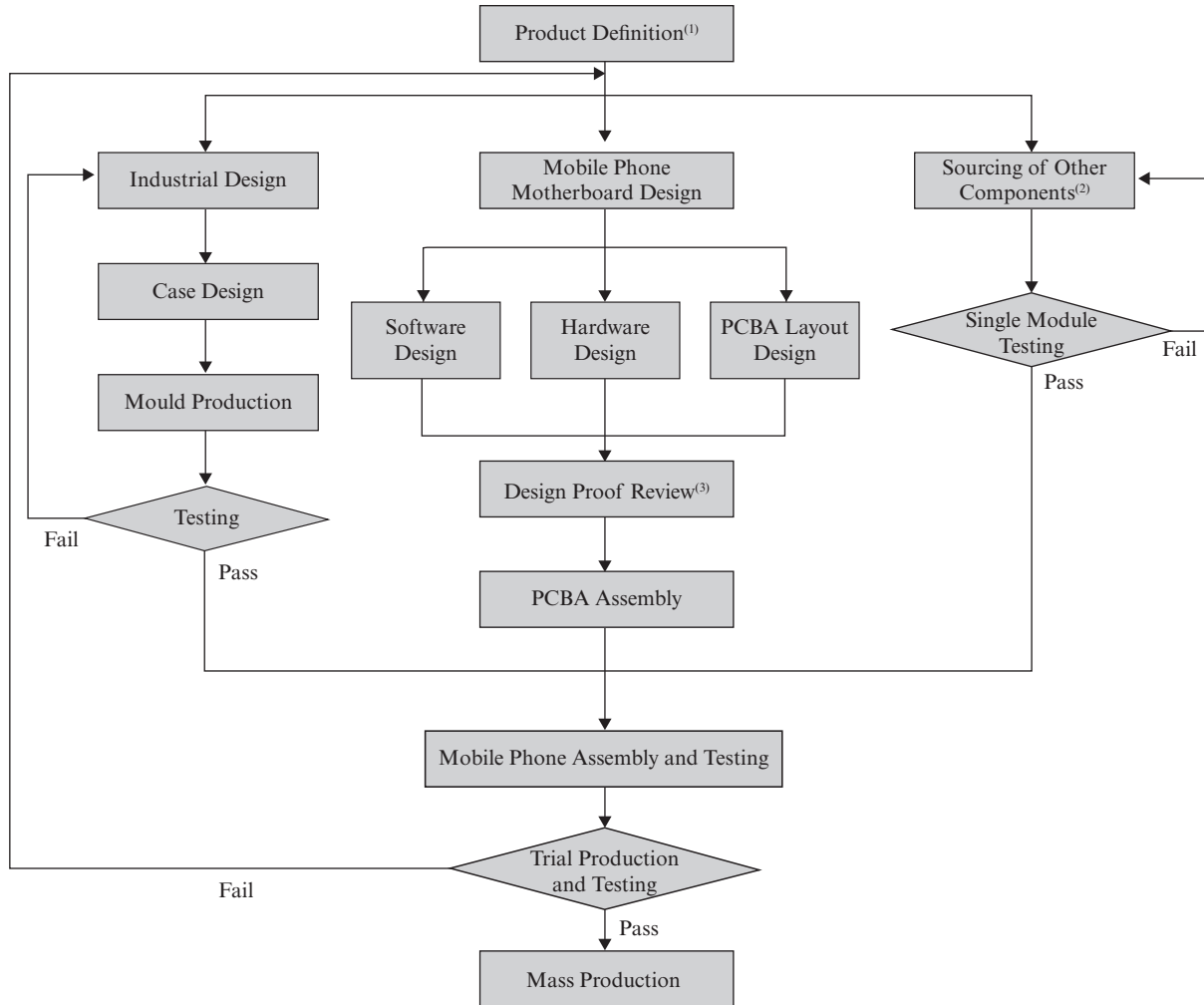
We are now able to design mobile phone for different systems of 2G, 3G and 4G, mainly including GSM, W-CDMA and LTE, etc. We can also carry out circuit board design and software development for our mobile phones and conduct relevant testings. According to the CIC Report, mobile phones using 5G network is expected to be available in 2019 and rapidly gain popularity before representing 3.8% of the total global mobile phone installed base in 2023. Our R&D team have been working on the design and development of 5G mobile phones, and we believe we will be able to serve the needs for 5G mobile phones in 2020.

During the Track Record Period, we developed over 500 mobile phone models (including PCBAs models for mobile phones) and over 10 models of IoT related products meeting the needs of various customers. It generally takes around four months for us to develop a new model for our product roadmap as introductory of our new product to customers or as designs according to our customers' request. If we are requested to make modifications to existing models to suit customers' requests, it generally takes less than two months.

As at 30 April 2019, we were the registered owner of more than 35 patents and 45 software copyright which are developed by our R&D team.

**R&D process**

The following chart demonstrates the design and development process of a typical mobile phone product:



*Notes:*

- (1) Selection of chipset will be completed in the stage of product definition. The subsequent R&D will be based on the chipset selected.
- (2) Other components mainly include mobile chips, display modules and camera modules and etc.
- (3) Design proof will be reviewed internally by our R&D project manager and consult with our production team to ensure smooth production process.

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In the product definition stage, we formulate work distribution and determine the R&D timetable. The product definition will be completed with joint effort of both the sales staff and R&D staff. In the core steps of R&D, mobile phone motherboard design comprises of three streams, namely software design, hardware design and PCBA layout design, based on the chipset we have planned to use according to the product specification requested by our customers. At the same time, case design will be finished for sourcing of suitable mould. Thereafter, assembled trial product will be tested internally and sent to our customer for final approval before mass production. In general, it takes at least 4 months for a new model from product definition to the mass production stage, while the modification of an existing model takes less than 2 months.

During the Track Record Period, the total R&D expenditures amounted to RMB78.8 million, RMB102.8 million, RMB105.4 million and RMB25.7 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively. All the R&D expenditures have been accounted for in the consolidated statement of profit or loss and other comprehensive income for the corresponding periods.

We believe that our edge on the R&D and design capabilities enables us to appeal to our customers' needs, maintain business relationships with our existing customers as well as explore new business opportunities.

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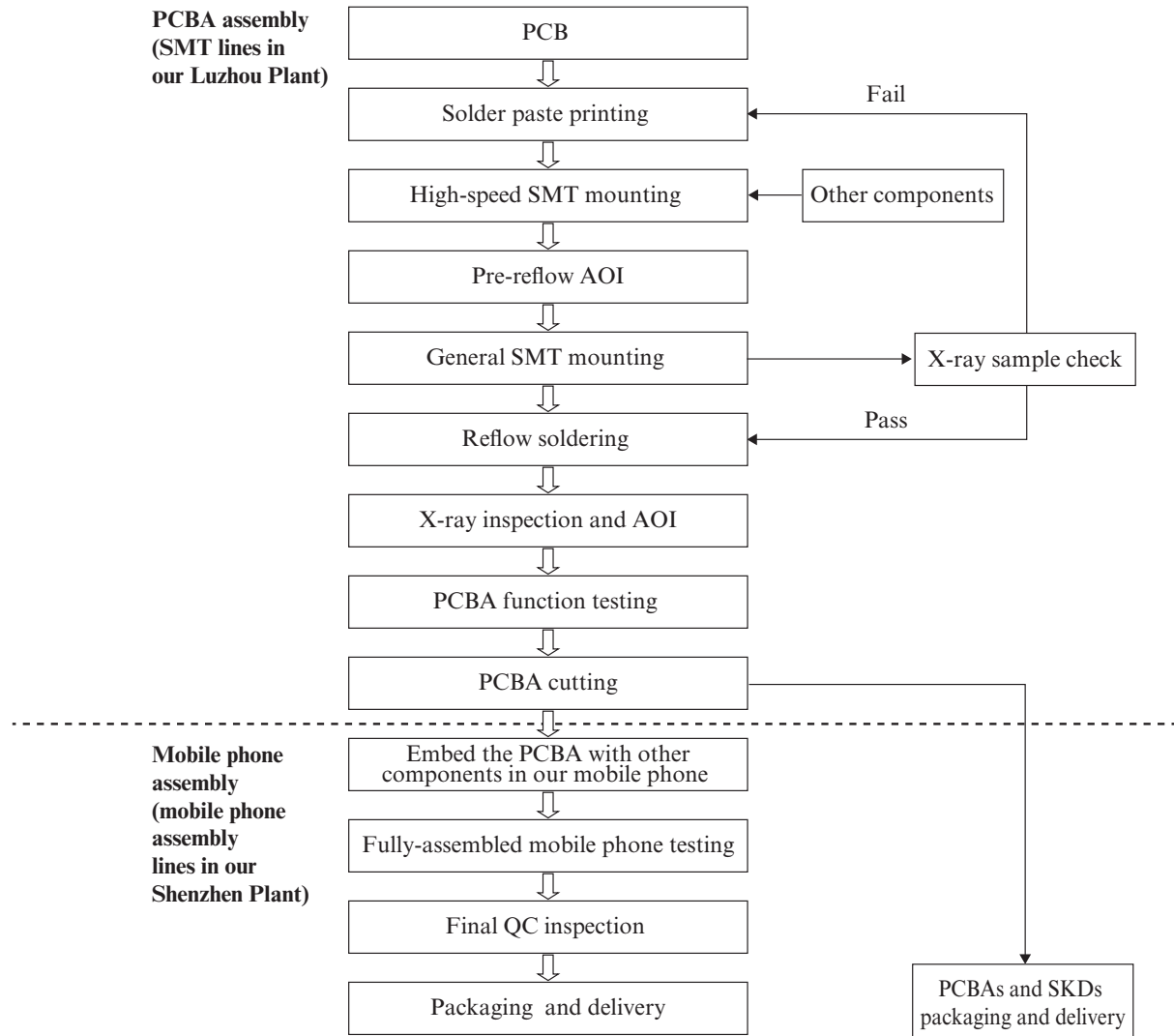
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## PRODUCTION

### Production flow

We carried out our PCBA assembly and mobile phone assembly process at our Luzhou Plant and Shenzhen Plant, respectively. The following chart demonstrates the production process carried out by us:



#### (1) PCBA assembly

PCBA assembly is the process of assembling, populating and placing of various kind of electronic components (such as capacitors, resistors, integrated circuits, diodes and inductors) onto a PCB to form a functional PCBA.

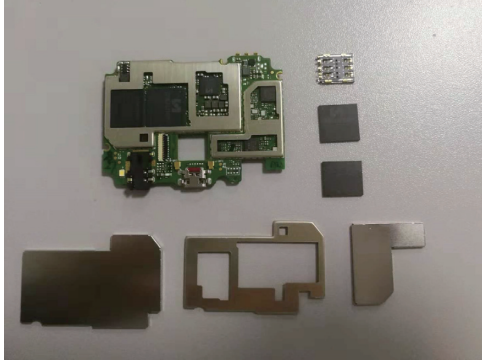
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Set forth below a brief description of certain major steps involved in the PCBA assembly process:

### Raw materials, components and parts



We procure the raw materials, components and parts required for assembly such as (i) electronic components and ancillary materials (including PCBs, semiconductors, ICs, batteries and magnetic heads); and (ii) casing (plastic and metal parts), packaging materials, LCD screens and consumables.

### Solder paste printing



Solder paste, which is essentially powdered metal solder suspended in a thick medium flux, is applied onto the PCB. Solder paste is printed on the PCB by automated printer prior to assembly. At times, based on our customers' requirements or products specifications, AOI and/or visual inspection will be performed to ensure solder paste has been properly applied. This step is important to ensure that we apply solder paste only to the right parts of the PCB and mounting components have sufficient solder paste for good soldering after the PCBAs are assembled.

### SMT mounting



The SMT mounting machine pick up components including chips, ICs, connectors by vacuum placement heads and place them on the PCB. After placement, we will conduct visual inspection to check if components are properly placed according to our customers' requirements or product specifications.

### Reflow soldering



After mounting, the PCB is transferred by conveyor belt to pass through a re-flow oven for soldering the components. In the reflow oven, solder paste applied on the board is heated and melted to keep the IC in place, and then the molten solder paste is cooled to keep the IC attached to the PCB. This step is to solidify and adhere the electronic components onto the PCB.

### AOI and X-ray inspection



We carried out various quality control procedures throughout the production process, including AOI inspection, X-ray testing, final product testing and visual checking by our production staffs and QC team.



- AOI refers to the process where a camera autonomously scans the device under test for both catastrophic failure (e.g. missing component) and quality defects (e.g. fillet size or shape or component skew). It is commonly used in the manufacturing process because it is a non-contact test method. Machine vision systems optically scan the surface of the PCB or PCBA to spot defects. Apart from AOI, we also conduct visual checking on our work-in-progress and finished products.
- X-ray inspection, which allows us to see through layers and visualise lower layers of the PCBA to identify any hidden flaw of our PCBAs, is carried out for more complex or layered PCBAs.

**PCBA function testing**

The overall quality of the PCBAs will be checked by our staff or by the automated testing machines and ensure that it conforms to the required standards of both our Group and our customers, by means of testing on all of the work-in-progress, immediate defect analysis and timely repair analysis. The test on finished product include visual checking and putting the PCBA through its paces, simulating the normal circumstances in which the PCBA will operate to check the PCBA's functionality and conformity to its design.

***(2) Mobile phone assembly***

After PCBA assembly process and our internal QC procedures, a portion of the finished PCBAs are sent from our Luzhou Plant to our Shenzhen Plant for onward production of mobile phones. We embed the PCBAs with other components in our mobile phones through the mobile phone assembly lines, which include camera modules, display modules, batteries and etc. The finished mobile phone must go through stringent tests and inspections conducted by our QC team before packaging. For the details, please see "Quality control" in this section.

**Production capacity and utilisation**

During the Track Record Period, we operated two production bases located in Shenzhen and Luzhou.

Our Shenzhen Plant, which was originally located in Baoan District and relocated to Guangming District in November 2015, is responsible for the mobile phone assembly and is currently equipped with 10 mobile phone assembly lines. Before the commencement of production of our Luzhou Plant, our Shenzhen Plant used the PCBAs supplied by third party EMS providers and suppliers.

In April 2018, our Luzhou Plant, which is equipped with four SMT lines, commenced its production. Due to costs efficiency, Luzhou Plant generally produced PCBAs for smartphones rather than feature phones.



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### *Our SMT lines for the production of PCBAs*

Our annualised PCBA production capacity is 2.5 million pieces (on the basis of 8 working hours a day and 264 working days a year). The table below sets out our production capacity and utilisation rate for our SMT lines in Luzhou Plant for the periods from 1 April 2018 (the commencement date of operation of Luzhou Plant) to 31 December 2018 and 4M2019:

	<b>From 1 April 2018 to 31 December 2018</b>	<b>4M2019</b>
Number of SMT lines	4	4
Production capacity (pieces) <i>(Note 1)</i>	1,900,800	844,800
Actual production volume (pieces)	2,019,614	973,482
Utilisation rate <i>(Notes 2 and 3)</i>	106.3%	115.2%

*Notes:*

- (1) The production capacity is calculated by multiplying 300 pieces per hour per SMT line, the number of SMT lines, 8 working hours per day and the total working days in the respective periods (i.e. 198 working days from 1 April 2018 to 31 December 2018 and 88 working days for 4M2019).
- (2) The utilisation rate is calculated by dividing the actual production volume by the production capacity in the corresponding periods.
- (3) The utilisation rate exceeded 100% as we operated more than 8 hours a day sometimes in order to meet our customers' need.

Based on the current production capacity of our Luzhou Plant, we still have to outsource the assembly work for a large portion of smartphone PCBAs to EMS providers in FY2018 and 4M2019.

### *Our assembly lines for the production of mobile phones*

The table below sets out our production capacity and utilisation rate for the mobile phone assembly lines in our Shenzhen Plant for each of FY2016, FY2017, FY2018 and 4M2019, respectively.

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>4M2019</b>
Number of assembly lines	8	8 (January–May)	10	10
<i>(Note 1)</i>		10 (June–December)		
Production capacity (units) <i>(Note 2)</i>	12,672,000	14,520,000	15,840,000	5,280,000
Actual production volume (units) <i>(Note 3)</i>	8,962,997	13,933,252	16,634,157	4,961,485
Utilisation rate <i>(Note 4)</i>	70.7%	96.0%	105.0%	94.0%

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*Notes:*

- (1) We increased our assembly lines from eight to ten in June 2017.
- (2) We calculate the production capacity by multiplying 750 units per hour per assembly line, number of assembly lines, 8 working hours per day and the total working days in the respective periods (i.e. 264 working days for each of FY2016, FY2017 and FY2018 and 88 working days for 4M2019).
- (3) The actual production volume refers to the actual number of mobile phones (including SKDs) we produced for each of the FY2016, FY2017, FY2018 and 4M2019, respectively.
- (4) The utilisation rate for FY2018 exceeded 100% as we operated more than 8 hours a day sometimes in order to meet our customers' need.

### **Outsource of production**

Depending on our production capacity and the delivery time requested by our customers, we outsource part of our PCBA and mobile phone assembly process to certain EMS providers who are specialised in SMT production and/or assembling of mobile phones. We also participate in the production management of the EMS providers, by providing support and solution to any technical problems occurred. We send our quality controls staff to our EMS providers who will sample finished products before delivery to ensure product quality. For details, please see "Quality control" in this section. During the Track Record Period, we have not experienced any material product defect which led to product recalls. We also perform monthly stock take at our EMS providers to ensure tight inventory management.

We choose our EMS providers based on the following criteria: (i) capability to produce high quality products that satisfy diverse specification; (ii) the ability to realise different designs; (iii) efficient production within minimum production lead time; (iv) assurance on security of confidential and commercial-sensitive proprietary information; and (v) competitive price among comparable EMS providers. We outsource the manufacturing to reliable EMS manufacturers to ensure quality of our products.

During the Track Record Period, we have engaged various EMS providers who are all Independent Third Parties. We maintain one to three years of business relationship with our EMS providers. We have entered into framework outsourcing agreements with some EMS providers during the Track Record Period. Under the framework outsourcing agreements, the EMS providers will manufacture and package the products according to the design and technical specifications provided, by using raw materials and components procured by us.

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The table below summarizes the main provisions of the framework outsourcing agreements:

Agreement duration	24 months or until the parties terminate the agreement by written consent.
Main provisions and exclusivity	<p>The EMS provider will be responsible for PCBA assembly or mobile phone assembly work according to our purchase orders, which includes incoming quality check of raw materials, and testing, packaging and transportation, after-sales maintenance.</p> <p>The material used for production will be supplied by us prior to production.</p>
Quality assurance	<p>The EMS provider is required to follow the procedures and quality standard agreed by the parties and the products shall comply with certain defect ratio.</p> <p>The EMS provider shall repair and reproduce the defective product and bear all the raw material cost if the defect is caused by such EMS provider.</p>
Subcontracting fee	The subcontracting fee will be determined by the complexity of the production process and will be set out in the purchase order from time to time.
Credit term	30 days
Termination clause	The agreement will be terminated by mutual consent in written.

For each of FY2016, FY2017, FY2018 and 4M2019, the number of PCBAs we contracted out to our EMS providers were 9.9 million pieces, 12.3 million pieces, 6.4 million pieces and 0.7 million pieces, respectively, while the number of mobile phones we contracted out amounted to 5.3 million units, 4.9 million units, 3.1 million units and 0.2 million units, respectively. Our subcontracting costs to EMS providers were RMB53.5 million, RMB77.4 million, RMB82.7 million and RMB8.2 million, respectively, which represents 2.7%, 2.9%, 3.1% and 1.2% of our total cost of sales for each of FY2016, FY2017, FY2018 and 4M2019. In order to reduce our reliance on subcontractors, we built up and commenced operation of our second production base in Luzhou in April 2018 which contains four SMT lines for our production of PCBAs, which produced 2.0 million and 1.0 million pieces of PCBAs in FY2018 and 4M2019, respectively.

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### Machinery and equipment

Our Shenzhen and Luzhou production bases are equipped with a variety of machinery and equipment for the different stages of assembling the PCBAs and fully-assembled mobile phones and other products. SMT mounting machine is the primary type of machinery and equipment used by our Group for PCBA assembly. These machinery and equipment are made in the PRC, Germany, Japan and Korea. We adopt a straight-line depreciation policy on our machinery for 3 to 10 years, which our Directors believe is in line with industry norm. Notwithstanding that, the machinery and equipment generally have a useful life of approximately ten years. The table below sets out a summary of the principal machinery and equipment owned by our Group as at the Latest Practicable Date.

Name of the machinery and equipment	Number of units	Purchase cost (VAT inclusive) (RMB'000)	Functions	Location	Average useful life (Years) (Note 1)	Remaining useful life (Years) (Note 2)
<b>SMT line</b>						
SMT mounting machine	20	34,353	High speed, high precision placing of broad range of electronic components on the PCBs	Luzhou	10	9
Reflow oven	4	1,867	Reflow soldering of surface mount electronic components to PCBs	Luzhou	10	9
Solder paste printer	8	3,787	Applying solder paste to PCBs	Luzhou	10	9
Board cutting machine	4	580	Cutting the multi-pieces PCBA into single PCBAs	Luzhou	10	9
AOI machine	8	2,560	Conducting automated visual inspection by a camera scanning the PCBs/PCBAs for catastrophic failure (e.g. missing components) and quality defects	Luzhou	10	9
3D solder paste inspection machine	4	1,467	Performing 3D solder paste inspection on PCBs after solder paste printing	Luzhou	10	9
X-ray inspection machine	1	867	Performing X-ray inspection of PCBAs with real-time high magnification and resolution imaging	Luzhou	10	9
Automated testing machine	10	1,254	Conducting various tests and inspections to ensure the functions of mobile phones	Luzhou	5	4
Ultraviolet PCB laser printer	2	570	Printing QR codes on PCBs by ultraviolet laser	Luzhou	10	9
<b>Mobile phone assembly line</b>	10	569	Assembling various components into mobile phones	Shenzhen	10	7

*Notes:*

1. The average useful life of machinery and equipment is calculated based on the aggregated useful life of the machinery divided by the number of units of the machinery and equipment.
2. The remaining useful life of the machinery and equipment is calculated based on the estimated useful life deducted the average age of the machinery and equipment.

Regular maintenance of our production facilities is generally on a monthly basis and is scheduled to rotate among different machinery and equipment to avoid a complete shutdown of our operation.

***Repair and maintenance***

We implement a series of repair and maintenance procedures of our machinery and equipment. Our production team conducts routine checks on our machinery and equipment on a daily basis and routine cleaning and detailed checks on a monthly basis. Generally, we check the sensors and other core part of our machinery and equipment on a quarterly basis and conduct throughout cleaning thereof. We conduct cleaning on power supply system on an annual basis. We maintain detailed record on repair and maintenance work.

We compiled a handbook of the guidelines for the operation and maintenance of our production facilities. The handbook contains the schedules, procedures and responsibilities related to the repair and maintenance of our machinery and equipment. During the Track Record Period, our costs incurred for the repair and maintenance of our machinery and equipment was minimal.

**RAW MATERIALS AND SUPPLIERS**

The major raw materials and components we purchased for manufacturing our products include electrical and electronic components such as PCBAs, display modules, camera modules and mobile chips (such as memory and CPUs), etc.

We adopt stringent criteria in supplier selection. We rate suppliers based on product quality, product defect ratio, and their production capacity to minimize the risk of supply shortage, pricing and logistic arrangement capability. It is our strategy to maintain long-term relationship with our suppliers to maximize our bargaining power in terms of pricing, priority in using their latest products and priority in fulfilling our demand for stock at the time of short supply in the market.

We generally enter into legally-binding framework procurement agreements with our suppliers, which includes quality assurance agreement, delivery agreement, and non-disclosure agreement as its attachments. The table below sets out the main provisions of the framework procurement agreement and its attachments:

Agreement duration	With effect from the first transaction date and until the parties terminate the agreement by mutual agreement.
Main provision	The suppliers supply certain raw materials and components to us according to our purchase order.
Quality standard and warranty	The suppliers shall comply with the quality standard and the prototype confirmed by both parties in written from time to time.  The suppliers shall comply with the defective rate specified for each type of materials at different stages of our onward production including incoming quality inspection, production and assembly and after-sales.

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Payment and credit term	Payment shall be made by bank acceptance bills on a monthly basis. A credit term from 30 days to 60 days will be granted to us.
Minimum purchase commitment	No agreed terms on minimum purchase commitment.
Transportation and packaging	the suppliers shall be responsible for fees arising from packaging, warehousing, transportation and insurance to our designated place.
Delivery	The suppliers shall update and provide us a material delivery plan on a daily basis. Delivery shall be made to the place designated on the purchase order.
Confidentiality	The suppliers are obliged to keep confidential all commercial secrets including but not limited to all the documents, data, materials, product designs, reports, technical knowledges, methodologies, marketing plans and other information received under terms of the agreement.
Breach	If the suppliers fail to deliver the material or fail to comply with the quality standard, the supplier shall pay us 30% of the total contract price and/or compensate us any loss incurred therein.

We will place purchase orders according to our production plans. The prices will be determined each time an order is placed and subject to arm's length negotiation with our suppliers. As at 31 December 2018, we have maintained business relationship with the majority of our top five suppliers for more than three years. They usually grant us a credit term of 30 days or require us to make payment in advance.

During the Track Record Period, the purchases from our largest supplier amounted to RMB326.0 million, RMB321.8 million, RMB289.3 million and RMB59.9 million for each of FY2016, FY2017, FY2018 and 4M2019, representing 17.1%, 11.9%, 11.6% and 9.9% of our total purchases for the corresponding periods, respectively. The purchases from our five largest suppliers amounted to RMB868.9 million, RMB1,113.5 million, RMB958.0 million and RMB209.0 million for each of FY2016, FY2017, FY2018 and 4M2019, representing 45.5%, 41.2%, 38.3% and 34.5% of our total purchases for the corresponding periods, respectively. To the best information and knowledge of our Directors, none of our Directors and their respective close associates or any of the Shareholders holding more than 5% of our Company's share capital as of the Latest Practicable Date has any interest in any of our five largest suppliers during the Track Record Period.

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The following tables set forth certain information of our five largest suppliers during the Track Record Period:

### FY2016

Supplier	Note	Materials purchased	Purchase costs <i>RMB'000</i>	% of total purchases	Credit terms	Commencement year of business relationship
Caron Group	(1)	PCBAs	325,998	17.1	Payment in advance	2013
CEAC Group	(2)	CPUs	221,320	11.6	30 days or Payment in advance	2014
Excelpoint Group	(3)	Memory	172,000	9.0	30 days or Payment in advance	2015
Zhongguangdian Group	(4)	Display modules	84,876	4.4	Payment in advance	2013
Texin	(5)	Memory	64,736	3.4	Payment in advance	2014
Total:			868,930	45.5		

### FY2017

Supplier	Note	Materials purchased	Purchase costs <i>RMB'000</i>	% of total purchases	Credit terms	Commencement year of business relationship
Caron Group	(1)	PCBAs	321,821	11.9	Payment in advance	2013
Excelpoint Group	(3)	Memory	258,615	9.6	30 days or payment in advance	2015
CEAC Group	(2)	CPUs	208,358	7.7	30 days	2014
Fise	(6)	PCBAs	181,631	6.7	Payment in advance	2012
Zhongguangdian Group	(4)	Display modules	143,059	5.3	15 days or payment in advance	2013
Total:			1,113,484	41.2		



## BUSINESS

### FY2018

Supplier	Note	Materials purchased	Purchase costs RMB'000	% of total purchases	Credit terms	Commencement year of business relationship
Junxing Group	(7)	Memory	289,293	11.6	30 days	2016
Excelpoint Group	(3)	Memory	209,768	8.4	30 days	2015
CEAC Group	(2)	CPUs	175,423	7.0	30 days or payment in advance	2014
Fise	(6)	PCBAs	158,778	6.3	Payment in advance	2012
Zhongguangdian Group	(4)	Display modules	<u>124,765</u>	<u>5.0</u>	15 days	2013
Total:			<u><u>958,027</u></u>	<u><u>38.3</u></u>		

### 4M2019

Supplier	Note	Materials purchased	Purchase costs RMB'000	% of total purchases	Credit terms	Commencement year of business relationship
Fise	(6)	PCBAs	59,883	9.9	Payment in advance	2012
Junxing Group	(7)	Memory	47,134	7.8	30 days	2016
CEAC Group	(2)	CPUs	46,146	7.6	30 days or payment in advance	2014
Excelpoint Group	(3)	Memory	28,119	4.6	30 days	2015
Holitech	(8)	Display modules	<u>27,757</u>	<u>4.6</u>	30 days	2016
Total:			<u><u>209,039</u></u>	<u><u>34.5</u></u>		

#### Notes:

- (1) Caron Group represents two private limited companies incorporated in Hong Kong, Hong Kong MTL Technology Limited with a paid up capital of US\$100,000 and Caron (HK) Information Technology Co., Limited with a paid up capital of HK\$10,000, and a private company incorporated in the PRC, Huizhou Meitelun Technology Limited\* (惠州市美特倫科技有限公司). Huizhou Meitelun Technology Limited is mainly engaged in wholesale of electronic components and recorded a revenue of RMB639.9 million for the year ended 31 December 2017. During the Track Record Period, our purchase from Caron Group decreased, which was mainly because most of the PCBAs we purchased from Caron Group were used for the smartphones we produced for Vivatel to whom our sale decreased significantly during the Track Record Period and we increased our purchases from Fise which better met customers' requirements during the Track Record Period.
- (2) CEAC Group represents a private limited company incorporated in the PRC, Shenzhen Zhongdian International Information Company Technology Limited (深圳中電國際信息科技有限公司) with a revenue of RMB5.1 billion for the year ended 31 December 2017, and two Hong Kong private limited companies, CEAC Technology HK Limited and a CEAC International Limited, each with a paid up capital of HK\$1.0 million, who are owned by a major distributor of electronic component and electronic communication equipment in China.

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- (3) Excelpoint Systems (PTE) LTD, a private limited company incorporated in Singapore, and Excelpoint Systems (H.K) Limited, a private limited company incorporated in Hong Kong (collectively “**Excelpoint Group**”), are two subsidiaries of a listed company on the Singapore Exchange Limited with a revenue of USD1.3 billion (equivalent to RMB8.7 billion) for the year ended 31 December 2018, who is a well-established regional electronics components distributor providing quality components, engineering design services and supply chain management in the Asia Pacific region.
- (4) Zhongguangdian Group represents two private limited companies incorporated in the PRC, Heyuan Zhongguangdian Communication Technology Company Limited (河源中光電通訊技術有限公司) and Chongqing Zhongguangdian Display Technology Company Limited (重慶市中光電顯示技術有限公司), who are ultimately controlled by the same shareholder and are primarily engaged in manufacturing and sales of electronic components. The aggregate revenue of Zhongguangdian is RMB3.0 billion for the year ended 31 December 2017.
- (5) Texin (Hongkong) Electronics Co. Limited (“**Texin**”) is a private limited company incorporated in Hong Kong, who is an electronic component agent headquartered in Shanghai. The holding company of Texin is a PRC company with a registered capital of RMB58.5 million.
- (6) Shenzhen Fise Technology Holding Co., Ltd. (深圳沸石科技股份有限公司) (“**Fise**”) is a private limited company incorporated in the PRC, who is principally engaged in wholesale of electronic components and recorded a revenue of RMB480.4 million for the year ended 31 December 2017.
- (7) Junxing Group represents a private limited company incorporated in the PRC with a registered capital of RMB50.0 million, Shenzhen Junxing Communication Technology Company Limited (深圳俊星通訊科技有限公司), and a Hong Kong private company with a paid up capital of HK\$100.0 million, Herewin Technology Group (HK) Co., Limited, who are ultimately controlled by the same shareholders and are primarily engaged in the wholesale of electronic components.
- (8) Jiangxi Holitech Technology Co., Ltd.\* (江西合力泰科技有限公司) (“**Holitech**”), a limited liability company incorporated in the PRC, who is a subsidiary of a company listed on Shenzhen Stock Exchange, who is primarily engaged in R&D, manufacture and sale of full screen modules, touch screen modules and other electronic products, and recorded a revenue of RMB16.9 billion for the year ended 31 December 2018.
- (9) Most of the background information above relating to our five largest suppliers during the Track Record Period was obtained from an independent search agent engaged by our Group. To the best knowledge of our Directors after making reasonable enquiries, the information stated is the most recent data available to the independent search agent.

### Overlapping customers and suppliers

During the Track Record Period, three of our customers were also our suppliers or subcontractors or vice versa.

We supplied mobile phones of various models to a customer who is a well-established branded mobile phone supplier in the PRC. The revenue attributed the relevant customer amounted to RMB86.6 million, RMB118.8 million, RMB87.3 million and RMB38.3 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively, representing 4.0%, 4.1%, 3.0% and 5.1% of our total revenue during the corresponding periods. The gross profit attributable to the relevant customer amounted to RMB4.4 million, RMB5.9 million, RMB4.2 million and RMB2.1 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively. Pursuant to the agreement for the purchase of

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certain mobile phones from us by the relevant customer during the Track Record Period, we were required to purchase designated mobile chips and some other components from it for the relevant orders. Such purchases amounted to RMB15.0 million, RMB10.4 million, RMB6.0 million and RMB5.2 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively, representing 0.8%, 0.4%, 0.2% and 0.9% of our total purchase during the corresponding periods.

We purchased PCBAs from Fise, a major supplier. The purchase amount attributed to this supplier amounted to RMB54.8 million, RMB181.6 million, RMB158.8 million and RMB59.9 million for each of FY2016, FY2017, FY2018 and 4M2019, respectively, representing 2.9%, 6.7%, 6.3% and 9.9% of our total purchases during the corresponding periods. In FY2018, the relevant supplier purchased integrated circuits from us. The revenue attributed to such supplier amounted to RMB8,300 or 0.0001% of our total revenue in FY2018. The gross profit attributable to the sales to relevant supplier amounted to RMB2,100 for FY2018.

### INVENTORY CONTROL

Our inventories consist of raw materials, work-in-progress and finished products.

Due to the relatively short product life circle and accelerated product development period resulted from fierce competition in the mobile phone industry, the Directors believe that it is crucial to maintain a benign circle of inventory.

We believe the key in inventory control is balancing the risk of stock obsolescence and possible supply shortage of raw materials. We may place order with our suppliers in advance for certain materials which are of longer lead time and prone to shortage based on sales forecast, including display modules, camera modules and mobile chips. During the Track Record Period, we have not faced any material shortage of key components.

Our inventory control information system enables us to check the inventory status on a real-time basis to manage the level of stock. We closely monitor our inventory levels to meet the production requirements and minimise any waste on inventory or obsolete inventory. We did not have obsolete and slow-moving inventories and therefore no provision was made during the Track Record Period.

### QUALITY CONTROL

We adopt stringent production control system to maintain the effectiveness of our business operation and the quality of our products. Our Directors believe that an effective control system is essential for us to produce products in high quality and sustain our relationship with customers for the long-term.

Our quality management system has complied with the standard of GB/T 19001–2016/ISO9001:2015 Quality Management Systems Requirements and awarded a certificate for the design, development, production and services of communication products, including exportable mobile phone, on 18 January 2019, which remains valid until 17 January 2022.

We distribute our products to more than 15 countries. Many of our customers require us to comply with specific guidelines based on international product safety and restricted and hazardous materials laws and regulations that apply in the jurisdictions into which they import and sell their products. An overview of such laws and regulations are set out in “Regulations” in this prospectus.

As at 30 April 2019, our Group had 103 quality control staff, which include quality supervisor, quality engineers and technicians, who are responsible for quality control in various aspects, including incoming raw materials quality control, SMT control, overall quality control, assembly process, finished products, and subcontractors. Our quality control department is responsible to identify any quality control issues and provide solution to the production and production department management in order to address such issues.

#### **Quality Control on the Incoming Raw Materials**

We are responsible for procuring raw materials which are necessary for fulfilling the product specification as requested by our customers. Major raw materials, such as mobile chips, display modules, camera modules and PCBAs, are sourced from our approved suppliers. To enhance our control over of the quality of raw materials provided by our suppliers, we maintain an approved list of suppliers, which are selected based on our multi-dimensional selection criteria lied down by our procurement department.

In respect of evaluating the quality of raw materials that we procure from our approved suppliers, our IQC staff conducts inspection on the raw materials. This is to ensure that the quality of the incoming raw materials are in line with our internal guidelines, and also, conform to the specification set out in our design and schematic requirements of our customers.

Although our Group has adopted a strict quality control measures in inspecting the incoming raw materials, there are occasions that the raw materials are found to be sub-standard or defective during the assembly process. When such occasions occur, we will return the defective raw materials to the corresponding suppliers and request the suppliers to send a new batch of raw materials to us. Our Directors confirm that due to our strict policy in selection of suppliers and inspection of raw materials, we had not experienced significant return of raw materials and components which could not pass our incoming raw material inspection to the suppliers for during the Track Record Period.

#### **Quality control on the assembling process**

Our quality control personnel monitor the quality of semi-finished products throughout the assembly process at our Shenzhen Plant and Luzhou Plant. Our products are all tested at various major stages in their assembling process in order to ensure their qualities can meet the required standards and specifications as requested by our customers.

In respect of assembly process, we use advanced quality control machinery and equipment, including, AOI and x-ray inspection to ensure the quality of our products meet the standards and requirements of our internal guidelines while satisfying customers' specification. Also, visual inspection and overall sample testing are conducted by our quality control personnel before the final quality control procedure for finished products.

#### **Quality control on finished products**

After the assembling process, the finished products are transferred to our final quality control point before they are packaged and stored in our warehouses. In the final quality control procedure, our quality control personnel conduct sample testing and inspection on the physical appearance, functionality and level of adherence to the specification of our customers in accordance with the AQL of our quality control department. The quality data of the finished products is recorded by our quality control personnel and the approved finished products are sent to packaging and stored in the warehouse before delivery.

For the products which fail to meet the requisite quality standards, our quality control personnel conduct further product analyses on them. After identifying the issues of non-compliance in quality, additional work and measures are then carried out to correct and enhance the products in default. Our quality control personnel conduct new quality assurance testing and inspection to ensure the enhancement of the quality of the finished products are satisfied with our AQL and customers' specification. Some of our customers arrange their quality control personnel to perform on-site quality checks on the finished products.

#### **Quality control on subcontracted work**

We have entered into framework outsourcing agreements with our EMS providers, which includes quality assurance provisions. Under such arrangements, we provide to the EMS providers with the required materials, including raw materials and/or semi-finished products. The EMS providers are then responsible for conducting quality checks on the raw materials upon delivery and are required to notify our Group for any defect discovered within a specific period of time.

After the EMS providers complete the assembly process, they are required to conduct quality checks and inspections on the finished products. In some occasions, we may send our quality engineers to the sites of EMS providers to conduct sample testings on the functionality and physical appearance of the finished products. For any products which fail to meet our standard on finished products, we would request EMS providers to perform additional work on those defective products and bear the additional cost incurred for any defect caused by them.

In situations of product recall or any claim or complaint arising from defective products, the EMS providers will be liable for the losses incurred if such defect is caused by any default in the course of the assembly process of the EMS providers. Under the arrangements between the EMS providers and us, we are entitled to the right to claim compensation and recover our losses on breach of quality provisions from the EMS providers.

**INTELLECTUAL PROPERTY RIGHTS**

As a mobile phone supplier on ODM basis with strong design capability, we designed and registered various patents and software developed by our R&D team from time to time. The details of the intellectual property rights owned by our Group are set out in “Statutory and general information — Further information about the business of our Company — 2. Intellectual property rights” in Appendix IV to this prospectus. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights.

We supply mobile phone to our customers in their own or authorised brands, and hence we may face the risk of intellectual property right infringement if our customer does not have the ownership or authorisation of the relevant trademark. To manage the risk of infringing third parties’ intellectual property rights, we obtain trademark certificates or license or authorizations to check if our potential customers has the right to authorize us to design and manufacture products in the relevant trademarks.

During the Track Record Period, our Group has used certain unlicensed computer software products in the course of our operations in the PRC. We have rectified the problem and settled the matter with the licensor as we placed order for the licensed computer software products from the licensor, completed the installation of the relevant licensed software products and ceased to use the unlicensed software products since March 2019.

As at the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us in relation to the use of the unlicensed computer software products during the Track Record Period. Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our use of the unlicensed computer software products in the course of our operations in the PRC during the Track Record Period.

**PROPERTIES****Owned property in the PRC**

The table below sets forth the particulars of our owned property:

<b>Location</b>	<b>Owner</b>	<b>GFA</b> <i>(sq.m.)</i>	<b>Usage</b>
No. 11, 4088 Alley, Luoshan Road, Pudong District, Shanghai* (上海浦東區羅山路4088弄 (星月科技園)11號全棟)	Shanghai Sprocomm	1,580	R&D centre and office

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### Leased properties in the PRC

As at the Latest Practicable Date, our Group leased the following properties from Independent Third Parties in the PRC, which are material to our operation:

Location	GFA ( <i>sq.m.</i> )	Usage	Monthly rental/ obligations ( <i>RMB</i> )	Term
No. 13 Building, Area A, Phase 1 of the Standardised Plants, No. 19, 5th Section of Jiugu Avenue, Jiangyang District, Luzhou, Sichuan* (四川省瀘州市江陽區酒谷大道五段19號標準化廠房一期A區13#棟)	19,871	Factory (Luzhou Plant)	298,058 ( <i>Note 1</i> )	01/01/2018 to 31/12/2020
Area A of 3rd Floor and 6th Floor, Tower 2, No. 7 Industrial Area, Yulv Community, Guangming, Shenzhen* (深圳市光明區玉律社區第七工業區第二棟3樓A區及6樓)	13,560	Factory (Shenzhen Plant)	237,300	01/06/2015 to 30/05/2021
No. 2 R&D Tower Guizhou Xinpu Economic Development Zone* (貴州新蒲經濟開發區2號研發樓)	9,000	R&D centre	( <i>Note 2</i> )	( <i>Note 2</i> )
Room 1, 8th Floor, Block 3, Building 9, 1480 Tianfu Road North, High Technology District, Chengdu City* (成都市高新區天府大道北段1480號9號樓3棟8層1號)	327	R&D centre	22,314	12/09/2019 to 11/09/2020
F1.65D, Tianfa Building, Chegongmiao Industrial Zone, Xianmi Lake, Futian District, Shenzhen* (深圳市福田區香蜜湖天安車公廟工業區天發大廈F1.65D)	1,135	Offices	124,812	09/09/2017 to 30/11/2019 ( <i>Note 3</i> )
F1.6 4C 403-410, Tianfa Building, Chegongmiao Industrial Zone, Xiang'an Lake, Futian District, Shenzhen* (深圳市福田區香蜜湖天安車公廟工業區天發大廈F1.6 4C 403-410)	1,137	Warehouses and offices	112,157	09/09/2017 to 30/11/2019 ( <i>Note 4</i> )



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*Notes:*

- (1) Pursuant to the investment cooperation agreement entered into between Luzhou High Technology Development Zone Management Committee\* (瀘州高新技術產業開發區管理委員會) and Shenzhen Sprocomm in August 2017, Luzhou High Technology Development Zone Management Committee agreed to give allowance for 100% of the rental for the first three years and 50% of the rental for the fourth and fifth year if Luzhou Sipukang fulfil the following conditions: (i) for the first five complete years after the commencement of operation (i.e. 2019 to 2024), the total revenue of smart terminal products sold to the areas outside Luzhou shall reach RMB15 billion; (ii) for each of the first, second and the third year (i.e. 2019, 2020, 2021), the revenue shall be more than RMB1 billion, RMB2 billion and RMB2 billion, respectively.
- (2) Upon invitation of Guizhou Xinpu Economic Development Zone Management Committee\* (貴州新蒲經濟開發區管理委員會) (the “**Guizhou Xinpu Management Committee**”), we entered into an investment cooperation agreement in June 2016 (supplemented by a supplemental agreement), pursuant to which we are entitled to use a property located at Guizhou as an R&D centre free of rental for development of IoT and mobile phone related products with certain subsidies for renovation, purchase of equipment and wages, provided that we can fulfil various conditions including: (i) to recruit at least 50 talents and to apply at least one patent in the first year upon commencement of the agreement; (ii) to recruit at least 100 talents and to apply at least three patents by the end of the second year upon commencement of the agreement; (iii) to recruit of at least 300 talents and to apply at least six patents by the end of the third year upon commencement of the agreement.

Given we encountered difficulties to recruit sufficient talents in Luzhou, we have not been able to meet the relevant conditions as at 30 June 2019. In order to promote local economic development and attract investment, Guizhou Xinpu Management Committee issued a confirmation letter on 10 July 2019, which confirmed that they agree to extend the three years term to six years until 30 June 2022 and currently do not require us to return the subsidies that we received from the Guizhou Xinpu Management Committee and compensate any losses that it may incur. Both parties are currently negotiating on the conditions we shall fulfil upon the extended term and will enter into a second supplemental agreement once the conditions are agreed.

We plan to surrender the relevant property to the Guizhou Xinpu Management Committee in June 2022 upon expiry of the extended term mentioned above and early terminate the relevant investment agreement if we are not able to meet the relevant conditions by then. Under such circumstances and upon the termination of the relevant investment agreement, there is a risk that we may be required to return the total subsidies that we received from the Guizhou Xinpu Management Committee, which amounted to RMB12.4 million as at 30 April 2019, and compensate any losses that it may incur. Our Directors believe that such losses would be minimal after we return the subsidies. Up to the Latest Practicable Date, we have not received any claim for compensation from Guizhou Xinpu Management Committee for our non-fulfilment of the relevant conditions.

For RMB12.4 million of the total subsidies received as at 30 April 2019, we have recorded such amounts as our liabilities (accruals and other payables) in our consolidated statements of financial position as at 31 December 2018 and 30 April 2019. We currently have about 40 staff at the R&D centre in Guizhou and plan to reassign them and relocate some of the devices to our R&D centres in Shanghai or Chengdu. Our Directors estimate the relocation will be completed within one week and the relevant cost would be in the range from RMB102,850 to RMB140,250. The R&D costs attributable to our R&D centre in Guizhou amounted to RMB2.5 million, RMB8.8 million, RMB5.9 million and RMB1.4 million for FY2016, FY2017, FY2018 and 4M2019, representing 3.2%, 8.6%, 5.6% and 5.4% of our total R&D costs during the corresponding periods. Our management does not expect any material adverse impact on the operation or financial performance for the close down of the relevant R&D centre.

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(3) In September 2019, we entered into a new lease agreement with the landlord for the relevant property with a new lease term from 1 December 2019 to 30 November 2021 and monthly rental of RMB124,812.

(4) In September 2019, we entered into a new lease agreement with the landlord for the relevant property with a new lease term from 1 December 2019 to 30 November 2021 and monthly rental of RMB86,017.

We also leased a number of properties which are used as staff accommodation in Luzhou, Guizhou and Shenzhen, the details of which are set out as below:

Location	GFA ( <i>sq.m</i> )	Monthly rental ( <i>RMB</i> )	Term
Four expert apartments, No.12, Xuyang Road, Taian Street, Jiangyang Area, Luzhou, Sichuang* (四川省瀘州市江陽區泰安街道旭陽路12號4套專家公寓)	240	4,000	07/03/2018 to 06/03/2020
Three staff apartments (Room 8-3-201, 8-3-202 and 8-3-203), No.12, Xuyang Road, Taian Street, Jiangyang Area, Luzhou, Sichuang* (四川省瀘州市江陽區泰安街道旭陽路12號3套員工公寓 (8-3-201、8-3-202、8-3-203))	180	1,260	01/11/2017 to 31/10/2019
Ten staff apartments (Room 9-3-4-3, 9-3-4-4, 9-3-5-1, 9-3-5-2, 9-3-5-3, 9-3-5-4, 9-3-6-1, 9-3-6-2, 9-3-6-3 and 9-3-6-4), No.12, Xuyang Road, Taian Street, Jiangyang Area, Luzhou, Sichuang* (四川省瀘州市江陽區泰安街道旭陽路12號10套員工公寓 (9-3-4-3、9-3-4-4、9-3-5-1、9-3-5-2、9-3-5-3、9-3-5-4、9-3-6-1、9-3-6-2、9-3-6-3、9-3-6-4))	600	6,000	25/12/2017 to 24/12/2019
Five staff apartments (Room 1-2-3-2, 1-2-3-3, 1-2-3-4, 1-2-4-1 and 1-2-4-4), No.12, Xuyang Road, Taian Street, Jiangyang Area, Luzhou, Sichuang* (四川省瀘州市江陽區泰安街道旭陽路12號5套員工公寓 (1-2-3-2、1-2-3-3、1-2-3-4、1-2-4-1、1-2-4-4))	300	3,000	02/03/2018 to 01/03/2020

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<b>Location</b>	<b>GFA</b> <i>(sq.m)</i>	<b>Monthly rental</b> <i>(RMB)</i>	<b>Term</b>
30 apartments of Qingping Mansion, Xiazi Town, Xinpu Economic Development Zone, Honghuagang Area, Zunyi, Guizhou* (貴州省遵義市紅花崗區新蒲經開區蝦子鎮清坪公寓30套公寓)	900	<i>(Note)</i>	01/11/2016 to 31/10/2019
3rd Floor and half of 4th Floor of the staff accommodation ancillary to Hongji Electronic Factory Building 3 and 4, No.6 Industrial District, Yulv Community, Gongming Sub-district, Guangming, Shenzhen* (深圳市光明新區公明辦事處玉律社區第六工業區鴻基電子三、四棟廠房所配宿舍3樓全層以及4樓半層)	1,100	29,315	10/12/2017 to 31/12/2019
Room 802–815, Hanhaida Apartment, No.7 Industrial District, Yulv Community, Gongming Sub-district, Guangming, Shenzhen* (深圳市光明新區公明辦事處玉律社區第七工業區漢海達公寓8樓802–815室)	420	12,600	01/07/2016 to 30/05/2021

*Note:* According to the supplemental agreement to the investment cooperation agreement we entered into with Guizhou Xinpu Management Committee in June 2016, Guizhou Xinpu Management Committee agreed to reimburse us the rental for staff accommodation as part of the government subsidies from November 2016 to October 2019. For details of the termination of the investment cooperation agreement and the impact on our financial performance, please see “Properties — Leased properties in the PRC — Note (2)” in this section.

### **Defective title of leased properties**

The landlords have not obtained full legal titles for certain properties leased to us. The details are set out below:

#### ***Our Shenzhen Plant***

The landlord of our Shenzhen Plant has not yet obtained the collectively-owned land use right certificate, construction land planning permit, construction work planning permit, construction work commencement permit, and building ownership certificate. According to the Land Management Law of the PRC (中華人民共和國土地管理法), the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) and relevant laws and regulations, if no construction work certificate and/or construction work commencement certificate is obtained, the competent authorities may order the relevant buildings to be demolished or confiscated, and the lease agreement shall be rendered void.

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We obtained a written confirmation from Shenzhen Guangming Yutang Sub-district Office\* (深圳市光明區玉塘街道辦事處) on 20 March 2019, which confirmed that (i) the landlord of our Shenzhen Plant is the owner of the relevant property and has the right to lease the relevant property; (ii) there is no dispute over the ownership of the relevant property. According to the relevant laws and regulations and the allocation of administrative authorities in the PRC, our PRC Legal Advisers are of the view that Shenzhen Guangming Yutang Sub-district Office is responsible for the land replanning and supervision of land planning in Yutang, Guangming, Shenzhen and hence has the authority to issue such confirmation.

According to the written replies from Shenzhen Guangming Housing and Construction Bureau\* (深圳市光明新區住房和建設局) and Shenzhen Guangming Land Replanning Bureau\* (深圳市光明新區土地整備局) on 14 August 2018 and 16 August 2018, respectively, the relevant property is not located in the scope of replanning area or reorganizing area. According to the relevant laws and regulations and the allocation of administrative authorities in the PRC, our PRC Legal Advisers are of the view that (i) Shenzhen Guangming Housing and Construction Bureau is responsible for the organization, implementation and supervision of the city replanning in Guangming, Shenzhen and hence has the authority to issue such confirmation; and (ii) Shenzhen Guangming Land Replanning Bureau is responsible for the land reorganization in Guangming, Shenzhen according to the relevant land authorities, and hence has the authority to issue such confirmation.

To the best knowledge of our Directors, as at the Latest Practicable Date, we are not aware that any higher authority holds different view to or has challenged the above confirmations. Taking into account of the relevant laws and regulations and the practice in the PRC, our PRC Legal Advisers are of the view that the risk of the relevant confirmations being challenged by higher authorities is remote.

According to a written confirmation issued by the landlord on 17 May 2019, (i) the landlord is in the process of obtaining the land use right certificate and the relevant permits and certificates; and (ii) the landlord believe there is no substantial obstacle in obtaining such certificates and permits.

Our PRC Legal Advisers are of the view that (i) based on the above, the risk that we are ordered to vacate from our Shenzhen Plant is remote; and (ii) due to the title defects mentioned above, we may not be able to register the relevant agreement with the relevant authority and hence be exposed to a fine of no more than RMB10,000 by the relevant authority.

Notwithstanding that we reasonably and firmly believe that the risk of relocation of our Shenzhen Plant within a short term is remote and that we intend to continue our production in the current Shenzhen Plant, in the unlikely event that we are forced to move out from the relevant leased property by the relevant authority in the PRC, we will outsource all our mobile phone assembly work to our EMS providers which would enable us to meet our customers' needs. Our Directors expect the additional cost of sales resulted from outsourcing the assembly work (based on our sales volume of mobile phones in FY2018), net of the cost of sales incurred in our self production would amount to approximately RMB1.0 million representing 0.03% of our total revenue, with reference to the relevant figures in FY2018.

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In the unlikely event that the above subcontractors are not able to fully serve our customers' needs, we may opt to relocate our mobile phone assembly lines in Shenzhen Plant to our Luzhou Plant which has sufficient space to occupy both of our PCBA and mobile phone assembly lines.

Our current usable floor area of our Luzhou Plant is 16,000 sq.m. and we occupied 51.0% of the space for our four SMT lines (with warehouse, laboratories, testing rooms) as at the Latest Practicable Date. Upon equipping two more SMT lines, we would have occupied 57.4% of our space in our Luzhou Plant. The remaining unoccupied floor area of our Luzhou Plant would be sufficient to house the 10 mobile phone assembly lines which are initially located at our Shenzhen Plant and occupy a floor area of 4,600 sq.m. (with other ancillary areas including warehouse, laboratories and testing rooms etc. to be re-arranged and combined or shared with those at Luzhou Plant) shall we need to realise the relocation plan, and we would have occupied 86.2% of the floor area of Luzhou Plant upon relocation.

Considering that (i) our Luzhou Plant has the similar conditions to our Shenzhen Plant; and (ii) most of our machinery and equipment in our Shenzhen Plant are movable, and can be assembled and disassembled, our Directors estimate that the relocation will be completed within 2 weeks including transportation, installation and trial run of machinery and equipment.

In the event that any relocation of our Shenzhen Plant is required, such relocation will be carried out in phases so as to minimise the disruption to our productions and we will, at the same time, engage EMS providers to supplement our production capacity until the relocation is completed.

Our Directors are of the view that the relocation will not have any material adverse impact on our business operations or financial condition based on the following reasons:

- (1) the estimated total costs and expenses of relocation, including transportation, renovation and setting-up costs, will not exceed RMB0.3 million, which is not substantial;
- (2) we are entitled to claim for two months of rental from the landlord of our Shenzhen Plant if we are to be vacated during the term of the lease;
- (3) the total rental of our production bases will reduce after the relocation completed; and
- (4) our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group whereby, among other things, they have undertaken to indemnify our Group from and against any potential liabilities, losses and damages resulting from any suspension of operation and/or relocation costs and expenses sustained or incurred as a result of or in connection with the title defects.

***Our Luzhou Plant***

The landlord of our Luzhou Plant has obtained the land use right certificate, construction land planning permit, construction work planning permit and construction commencement permit for the relevant leased property, and is in the process of applying for the building ownership certificate.

We have obtained a written confirmation from the landlord of our Luzhou Plant on 14 March 2019, which confirmed the landlord has filed the application for the building ownership certificate and there are no obstacles in obtaining such certificate.

Taking into account of the above, our PRC Legal Advisers are of the view that (i) as our Luzhou Plant is not an unauthorised building, there is no risk that the relevant building will be demolished or confiscated; and (ii) the relevant lease agreement remains valid.

As advised by our PRC Legal Advisers, we may not be able to register the relevant lease agreement with the relevant authority before the landlord obtain ownership certificate and we may be exposed to a fine of no more than RMB10,000 penalties by the relevant authority. Taking into account of the above, our Directors believe that the title defect of our Luzhou Plant is not crucial to our operation.

To prevent the recurrent of the title defects of our leased properties in the future, our administration manager will review the lease agreements, ownership certificates and relevant legal documents to ensure the ownership of the property is clear. We will also engage an external legal counsel to advise us on the title issues if necessary.

**ENVIRONMENTAL PROTECTION**

Our business is subject to PRC environmental protection laws and regulations. For further details, please see “Regulations — PRC laws and regulations — Laws and regulations on production — Environmental protection” in this prospectus.

During our production process, there are certain wastage generated including solid waste, noise and polluted air. We have in place standard procedures to manage, treat and reduce the pollution and wastage in accordance with national and local requirements. We also have in place facilities for air filtration to ensure that the level of wastage or pollutants generated during our production process is within statutory limits. In addition, we have engaged a professional waste disposal service company for the disposal of hazardous wastes produced during our production process. To ensure compliance with the latest environmental laws and regulations, we have internal compliance manuals setting out our goals and policies in relation to environmental matters. We have been accredited with the ISO 14001 certification of environmental management system.

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For each of FY2016, FY2017, FY2018 and 4M2019, our Group incurred minimal costs for compliance with the relevant environmental protection laws and regulations. Based on the past experience of our Group's management team, the nature of the industry and future developments of the industry, our Directors believe that our Group's current environmental conservation facilities are adequate to satisfy the relevant laws and regulations and do not expect any major or significant expenditure to be incurred in the future.

According to the PRC Legal Advisers, save for the matters disclosed in "Legal compliance" in this section and as confirmed by competent PRC authorities, we have complied with all applicable PRC environmental laws and regulations in all material respects and have not been subject to any material penalty in relation to environmental protection during the Track Record Period.

### OCCUPATIONAL HEALTH AND SAFETY

Our business is subject to certain PRC occupational health and safety laws and regulations. For further details, please see "Regulations — PRC laws and regulations — Laws and regulations on production — production safety" in this prospectus.

We are committed to providing a safe and healthy working environment for our employees and believe that sufficient measures have been adopted to ensure our employees' safety at work. In order to minimise the risk of accidents and enhance our employees' awareness of health and safety issues, we have in place guidelines and manuals relating to operational safety, handling of industrial accidents, and treatment of dangerous chemicals. Our occupational health and safety management system has been certified with OHSAS 18001:2007.

Pursuant to our internal operational safety guidelines, workplace accidents must be promptly reported to the safety officer of the relevant department, who will assess the seriousness of the accident and compile a work injury report. The safety officer is required to report the more serious accidents to our safety committee. Our safety committee regularly evaluates our safety management system to ensure that our safety policies and measures are duly implemented. We also maintain an internal record of workplace accidents.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material claim or incident in relation to work safety or been involved in any accident causing death or serious injury in the course of our business operations. Our PRC Legal Advisers advised that, save for the matters disclosed in "Legal compliance" in this section as confirmed by competent PRC authorities, we have complied with all applicable PRC production safety laws and regulations in all material respects and had not been subject to any material penalty imposed by the competent production safety authorities due to non-compliance with the relevant production safety laws and regulations during the Track Record Period.



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### EMPLOYEES

As at Latest Practicable Date, our Group has 1,283 employees in total. The following table sets forth the number of our Group's employees by job functions:

<b>Functions</b>	<b>Number of employees</b>
Production and production management ( <i>Note</i> )	739
Quality control	103
R&D	282
Procurement	51
Sales and marketing	43
Finance	24
Information technologies	8
Human resource	33
Total	<u>1,283</u>

*Note:* As at Latest Practicable Date, 258 of our production and production management staff were in our Luzhou Plant, while 481 of them were in our Shenzhen Plant.

### Recruitments

Our Group has a recruitment policy which we would recruit new employees based on departments' request. Our recruitment process normally contains two rounds of interviews. The candidates will be examined based on their relevant experiences, skills, knowledge, and integrity. According to our recruitment policy, we encourage our employees to refer us candidates, rewards would be given if the candidate successfully became our employees.

### Training

It has been our Group's policy to provide all-round training to its employees. Usually it includes induction training which is held by hour human resource department; on-board training; and sometimes education opportunities depending on the job function of the employees. Our Group will hold seminars and events occasionally for our employees, in order for them to catch up with market trend. Education allowance would be given to employees if such application is approved by their department managers and further approved by the human resource department.

### Confidentiality

We require our employees to undertake confidentiality obligation by contract. Under such contract, each of the employees is bound to keep our technologies and commercial secrets confidential. Also, it is provided in the contract that the intellectual properties and other commercial secrets generated in the process of an employee's job duties or based on our material and technical conditions or business information belong to the Group.

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### Remuneration

Our Group's employees are generally remunerated by way of fixed salary. Our Group utilise an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. Our employees also entitled to a number of subsidies, including but not limited to, annual company retreat; annual body check allowance; free company meals and performance-based bonus and paid leave.

### Social insurance scheme and Housing provident funds

We maintained and made contribution to social insurance scheme and housing provident funds for all of our employees.

### INSURANCE

Our Group currently maintains exports credit insurance and property insurance for our production facilities in our Shenzhen Plant and Luzhou Plant. Our Group does not maintain product liability insurance arising from the manufacture and sale of our products. Our Directors confirm that our Group's insurance coverage is adequate for our operations and is in line with industry practice. As the Latest Practicable Date, our Group had not made, nor been the subject of, any material insurance claim. There had been no product liability claims against us during the Track Record Period.

### LICENSES AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, our Group has obtained all material requisite licenses, permits and approvals for our operations. We set out below the material licenses, permits and approvals for our operations:

Type of licenses, permits and approvals	Holding entity	Issuing authority	Validity period/Term
Radio Transmission Equipment Type Approval Certificate (無線電發射設備型號核准證) 2017-3287	Shenzhen Sprocomm	Ministry of Industry and Information Technology of the PRC (中國人民共和國工業和信息化部)	From 27 May 2017 to 31 December 2019 ( <i>Note</i> )
Telecommunication Equipment Network Access Certificate (電信設備進網許可證) 02-C525-172073	Shenzhen Sprocomm	Ministry of Industry and Information Technology of the PRC (中國人民共和國工業和信息化部)	From 08 June 2017 to 08 June 2020 ( <i>Note</i> )
Radio Dealer licence (Unrestricted) (licence no.: RU00185757-RU)	HK Sprocomm	Communications Authority	From 1 May 2019 to 30 April 2020

*Note:* the Radio Transmission Equipment Type Approval Certificate and the Telecommunication Equipment Network Access Certificate we obtained are relating to a specific model of mobile phone products sold to one customer in China as per its request. We do not plan to renew these two licenses as we understand from such customer that they will no longer place order for such model of mobile phones.

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### BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we made sales and/or deliveries of our products to Russia, Ukraine and Egypt, generating revenue of RMB23.5 million, RMB51.7 million, RMB86.1 million and RMB2.9 million, respectively, representing 1.1%, 1.8%, 2.9% and 0.4% of our total revenue in FY2016, FY2017, FY2018 and 4M2019, respectively. The United States, the European Union, the United Nations, acting through the Security Council, Australia and a number of other countries and governmental organizations impose a variety of sanctions measures that limit parties' ability to transact with certain persons, entities or organizations in Russia. Other sanctions target specific sectors of the Russian economy, such as the financial, energy, and defense sectors. These sanctions have been implemented for a number of reasons articulated by the sanctions regulators, including in response to Russia's 2014 invasion of Ukraine, interference in the United States and other countries recent elections, malicious cyber-enabled activities, human rights abuses, use of a chemical weapon, weapons proliferation, illicit trade with North Korea, and support to Syria. Ukraine and Egypt are also subject to targeted sanctions, although less extensive than those applicable to Russia. The area known as Crimea, which is located in area between Russia and Ukraine, is subject to very extensive sanctions implemented when it was deemed to be annexed by Russia in 2014. Comprehensive sanctions against Crimea were imposed by the United States, Canada, the European Union and other European countries (including Ukraine) that, among other things, prohibit the sale, supply, transfer, or export of goods and technology in several sectors, including services directly related to tourism and infrastructure. They also place various transportation restrictions on Crimea, including listing various ports where ships cannot dock.

Hogan Lovells, our International Sanctions Legal Advisers, performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions:

- (a) reviewed documents provided by us about our Group, our business operations, revenue, sales contracts and counterparty list in relation to sales and/or deliveries Russia and Ukraine, ownership structure and management;
- (b) reviewed our list of counterparties in relation to sales and/or deliveries Russia and Ukraine during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and
- (c) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

As advised by our International Sanctions Legal Advisers after performing the procedures set out above, our activities during the Track Record Period do not appear to implicate restrictions under International Sanctions. Further, given the scope of our Global Offering and the expected use of proceeds as set out in the prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable International

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Sanctions on such parties, including our Company, our Company's investors, shareholders, the Stock Exchange and its listing committee and group companies, or any person involved in the Global Offering and accordingly, the sanction risk exposure to our Company, its investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Company's shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our sales and/or deliveries to the Countries subject to International Sanctions during the Track Record Period. The counterparties in relation to sales and/or deliveries Russia are not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the EU, Australia and the United Nations and therefore would not be deemed as sanctioned targets. Such sales and/or deliveries do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

### **Our internal control procedures**

We will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions.

In addition, we will not enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the EU, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

We have adopted know your client and other internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. For details, please see "Internal control and risk management" in this section.

Our International Sanctions Legal Advisers have reviewed and evaluated the internal control measures and are of the view that these measures are adequate and effective for the Company to comply with our undertaking to the Stock Exchange.

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Having taken the above advice of our International Sanctions Legal Advisers into account, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. After undertaking the relevant due diligence, and subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanction laws.

### LITIGATIONS

Save as disclosed below, during the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration is known to the Directors to be pending or threatened against any member of our Group which would have a material adverse effect on our financial position or results of operations.

Nature of the claim	Parties	Status
Contractual dispute	Plaintiff: A factoring company	On 29 August 2017, the 1st Defendant purchased smart lock PCBAs for shared bicycles from Shenzhen Sprocomm at an aggregate sum of RMB76.0 million.
	Defendants: <i>Case 1</i> A customer (“1st Defendant”), Shenzhen Sprocomm, four other suppliers to the 1st Defendant (collectively “Other Defendants”) (Shenzhen Sprocomm and Other Defendants, collectively “Corporate Defendants”) and two individual guarantors	On 22 December 2017, Shenzhen Sprocomm entered into a factoring agreement with recourse basis with the Plaintiff and the 1st Defendant to assign its then outstanding accounts receivable in the amount of RMB53.2 million (adjusted to RMB40 million pursuant to a supplement agreement, collectively “the factoring agreement”) to the Plaintiff. Pursuant to these agreements, the Plaintiff (as factor), provide financing of RMB40 million to Shenzhen Sprocomm (as seller) in return for (i) interest income, and (ii) transfer of legal title of accounts receivable from the 1st Defendant (as customer of Shenzhen Sprocomm) to the Plaintiff, amounting to RMB40 million. After the transfer of the accounts receivable to the Plaintiff, the Plaintiff owned the right to receive the outstanding amount of the accounts receivable from the 1st Defendant. Other Defendants who are also suppliers to the 1st Defendant also factored certain of their respective accounts receivable from the 1st Defendant with the Plaintiff.  The 1st Defendant failed to settle its then outstanding accounts payable due to the Plaintiff (which were attributable by the accounts receivable factored by Shenzhen Sprocomm and Other Defendants) in an aggregate sum of RMB53.8 million when they fell due.
		<i>Case 1</i>  On 28 November 2018, the Plaintiff filed a joint lawsuit at Beijing First Intermediate People’s Court (北京市第一中级人民法院) against the Corporate Defendants and the two individual guarantors for repayment of such sum plus interests, legal costs and court fees.  On 8 April 2019, Beijing First Intermediate People’s Court made the ruling against the Plaintiff to dismiss the action. Our PRC Legal Advisers have opined that as the Plaintiff did not appeal against the ruling within the statutory time limitation for appeal, such ruling has become effective. As the action was dismissed by the court, we are not liable for the Relevant Cost.

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Nature of the claim	Parties	Status
	<i>Case II</i>	<i>Case II</i>
	Shenzhen Sprocomm and 1st Defendant	On 7 May 2019, the Plaintiff separately filed another lawsuit at Beijing Haidian District People's Court* (北京市海澱區人民法院) against Shenzhen Sprocomm and the 1st Defendant for the repayment of the outstanding accounts receivable under the factoring agreement in the amount of RMB29.2 million (the "Relevant Sum") and the relevant interests.
	Each of the Plaintiff, the 1st Defendant, Other Defendants and the individual guarantors are Independent Third Parties.	As advised by our PRC Legal Advisers, (i) the 1st Defendant would be the primary obligor to repay the Relevant Sum and Shenzhen Sprocomm would only be liable to the Plaintiff until the Plaintiff having terminated and unwound the factoring arrangement in accordance with the factoring agreement; (ii) taking into account of the Relevant Sum and previous payments from 1st Defendant to the Plaintiff, the outstanding liability of Shenzhen Sprocomm amounted to RMB16.3 million plus the relevant interest, legal costs and court fees ("Relevant Costs") (for reference purpose, the Relevant Costs incurred up to 13 July 2019 amounted to RMB1.5 million); (iii) in the event we are ordered to settle the Relevant Sum, we would be entitled to claim for the relevant amounts from the 1st Defendant which could be set off against the prepayment in the total sum of RMB21.7 million made by the 1st Defendant to Shenzhen Sprocomm by operation of laws and/or pursuant to the set-off agreement entered into between the 1st Defendant and Shenzhen Sprocomm on 20 September 2019.
		As at the Latest Practicable Date, the hearing date for Case II had not yet been confirmed. We had made provision for the Relevant Costs against the abovementioned prepayment in the amount of RMB1.0 million for FY2018.
		The Controlling Shareholders agree to indemnify the Group pursuant to the deed of indemnity for any loss to be incurred arising from the above incidents.
Contractual dispute	Plaintiff: A supplier who is an Independent Third Party  Defendant: Shenzhen Sprocomm	The plaintiff filed a claim at Shenzhen Futian People's Court (深圳市福田區人民法院) on 18 July 2016 for RMB1.6 million of outstanding payment for goods delivered and the interest. The decision was made by Shenzhen Futian People's Court on 30 November 2018 that Shenzhen Sprocomm shall pay (1) RMB0.7 million of outstanding payment for goods delivered and the interest to the plaintiff, and (2) RMB11,268 of case acceptance fee to the court. We have filed an appeal at Shenzhen Intermediate People's Court (深圳市中級人民法院) on 17 December 2018 and the hearing was held on 30 May 2019. On 11 June 2019, Shenzhen Intermediate People's Court ruled to dismiss the appeal and maintain the decision made by Shenzhen Futian People's Court. We fulfilled the decision on 9 August 2019.
Contractual dispute	Plaintiff: A customer who is an Independent Third Party  Defendant: Guizhou Mars	On 20 April 2017, the Plaintiff entered into a sales agreement with Guizhou Mars, according to which Guizhou Mars agrees to develop and provide to the Plaintiff the intelligent selfie stickers including software and hardware according to the technical specifications provided by the Plaintiff. On 24 April 2017, the Plaintiff paid RMB355,000 as deposit to Guizhou Mars. However, until 15 October 2017, Guizhou Mars had not yet provided the software design which fully meet the technical specifications according to the sales agreement. On 3 January 2018, the plaintiff filed a claim at Shenzhen Nanshan People's Court (深圳市南山區人民法院) for a total amount of RMB395,000 (including RMB355,000 of deposit paid by plaintiff and RMB40,000 of damages). The decision was made on 14 June 2018 that Guizhou Mars shall pay RMB355,000 plus interest to the plaintiff. Guizhou Mars filed an appeal at Shenzhen Intermediate People's Court (深圳市中級人民法院) on 11 July 2018. On 11 October 2018, Shenzhen Intermediate People's Court made the final decision to maintain the decision made by Shenzhen Nanshan People's Court. We fulfilled the decision on 13 December 2018.

LEGAL COMPLIANCE

Save for certain incidents of non-compliance set out below, our Directors are not aware of any incident of material non-compliance of our Group during the Track Record Period and as at the Latest Practicable Date:

Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions and enhanced internal control
<p>(1) Failure to make social insurance and housing provident fund contributions in full and failure to complete the housing provident fund registration within the prescribed deadline</p> <p>Time of occurrence: September 2009</p>	<p>The non-compliance incident is due to the fact that the relevant staff of our human resource department were unfamiliar with the relevant PRC laws and regulations</p>	<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), for outstanding social insurance fund contributions that we did not fully pay within the prescribed deadlines, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay; if we fail to make such payments within the stipulated deadline upon receiving the demand notice from the relevant PRC authorities, we may be liable to a fine of one to three times the outstanding contribution amount.</p>	<p>As at the Latest Practicable Date, we have completed the housing provident fund registration and made full contributions to social insurance and housing provident fund for all of our PRC employees in accordance with the relevant laws and regulations.</p> <p>We have obtained written confirmations from local social insurance and housing provident fund authorities, which state that: (i) the social security and housing fund contributions were made by our PRC subsidiaries in compliance with the respective laws and regulations; and (ii) no administrative penalty has been imposed.</p> <p>Furthermore, assuming a two-years statutory limitation period after having considered the confirmations obtained, the relevant laws and regulations as well as the practise in the PRC, we have made provisions in the amounts of RMB16.8 million, RMB20.4 million, RMB14.7 million and RMB3.6 million, which comprise of the unpaid social insurance and housing provident fund contributions and the late payment fees for each of the FY2016, FY2017, FY2018 and 4M2019, respectively.</p> <p>Our Directors are of the view that such non-compliance incident will not have a material adverse effect on our business operations, nor will such incident constitute a material legal obstacle for the Listing.</p> <p>To enhance our on-going compliance, from March 2019, the head of our human resources department has designated an officer to carry out the following procedures on a monthly basis, and monitored the work of the designated officer to ensure that we comply with the laws and regulations related to social insurance fund and housing provident fund contributions:</p>
			<p>(i) review the staff record and examine whether our Group has made social insurance fund and housing provident fund contributions for every staff;</p> <p>(ii) report to our finance department on the number of staff, social insurance fund and housing provident fund contribution. Our finance department would check the amount of contributions against the staff list; and</p> <p>(iii) investigate variances with the records kept by our finance department, if any.</p>
		<p>Under the Administrative Regulations on Housing Provident Fund (住房公積金管理條例) for housing provident fund registrations that we fail to complete before the prescribed deadlines, we may be subject to a fine ranging from RMB10,000 to RMB30,000 for each non-compliant subsidiary or branch and (ii) for housing provident fund contributions that we fail to pay within the prescribed deadlines, we may be subject to any order by the relevant people's court to make such payments.</p> <p>Given that (i) as at the Latest Practicable Date, we had not received any employee's complaint or demand notice from relevant authorities for the outstanding social insurance and housing provident fund contributions with stipulated deadlines; (ii) we had made provisions for the outstanding social insurance and housing provident fund contributions and will immediately settle the same as well as the late payment fee upon receipt of such demand notice; (iii) we had completed the housing provident fund registration in March 2017 and such non-compliance was hence rectified; (iv) the limitation period under the PRC laws is two years from the occurrence of the relevant non-compliance incidents; and (v) according to the Comprehensive Plan to Reduce Social Insurance Rate* (降低社會保險費率綜合方案) issued by the General Office of the State Council on 1 April 2019, the historical outstanding social insurance payment shall be handled carefully and the relevant authorities shall not order the enterprises to settle all the historical outstanding social insurance payment in one go, which may cause financial difficulties, our PRC Legal Advisers are of the view that, as at the Latest Practicable Date, (i) for failure to make housing provident fund contributions in full and the late housing provident fund registration, there is no risk that the competent authorities impose any administrative penalties on us; (ii) for the failure to make social insurance contributions in full, the possible penalties against us shall be the late payment fee; and (iii) the risk of us being penalised and/or ordered to pay the unpaid social insurance and housing provident contributions is low.</p> <p>Therefore, for each of the FY2016, FY2017 and FY2018, the maximum penalties that may be imposed as a result of the above non-compliance amounted to RMB2.3 million, RMB2.9 million and RMB0.8 million, respectively.</p>	



Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities
<p>(2) Commencement of production prior to obtaining the approval of the acceptance inspection of the environmental protection facilities and the approval of the acceptance inspection of the fire protection facilities of our Luzhou Plant</p> <p>Time of occurrence: April 2018</p>	<p>The non-compliance is due to (i) handling staff of the human resource department of Luzhou Sipukang being unfamiliar with the relevant laws and regulations; and (ii) absence of professional advice at the material time.</p>	<p>According to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), for the construction projects that require an environmental impact report or an environmental impact report form, the environmental protection facilities shall be inspected and approved by competent authority before the construction project is put into production and used. The competent authority may order us to rectify such non-compliance within a prescribed deadline and we may be liable for a fine from RMB0.2 million to RMB1 million and a fine from RMB1 million to RMB2 million if we failed to ratify within the prescribed deadline. We may also be ordered by the competent authority to suspend production or shut down our factory if we cause serious environmental pollution or destruction.</p> <p>According to the Fire Protection Law of the PRC (《中華人民共和國消防法》), the fire protection facilities of a construction project shall be inspected and approved by the competent authority before the construction project is put into production or used. Due to our non-compliance, we may be ordered by competent authority to suspend production or shut down our factory and be liable for a fine from RMB30,000 to RMB0.3 million.</p>
<p><b>Remedial actions and enhanced internal control</b></p>	<p>As advised by our PRC Legal Advisers, (i) the Production Safety and Environmental Protection Office of Luzhou High-tech District and Luzhou Fire Detachment are the competent authorities for conducting the acceptance inspection of the fire protection facilities;</p> <p>Taking into account of the above, our PRC Legal Advisers are of the view that as we had rectified the relevant non-compliance, there is no risk that Luzhou Sipukang is ordered by the competent authorities to suspend production or operation and/or subject to other administrative penalties in remote.</p> <p>To prevent the recurrence of non-compliance incidents relating to the environmental protection and fire protection laws and regulations, for any future construction works to be carried out at our production base, our administrative manager, will ensure we obtain necessary approval(s) and/or registration(s) prior to commencing such works and/or putting the same into use and, if necessary, seek advice from an external legal adviser.</p>	<p>We obtained from Luzhou Environmental Protection Bureau* (瀘州市環境保護局) the approval of the environmental impact report form (the "Form") submitted by Luzhou Sipukang, which states (i) the Form has been approved as the relevant environmental protection measures proposed therein can effectively reduce and control the environmental pollutions; (ii) Luzhou Sipukang shall construct the environmental protection facilities as proposed in the Form and meet certain environmental protection requirements and standards; and (iii) Luzhou Sipukang shall go through the relevant procedures of the acceptance inspection of the environmental protection facilities upon completion of the construction.</p> <p>We had completed the construction and the acceptance inspection procedures of the environmental protection facilities as at 26 April 2019. As advised by our PRC Legal Advisers, we have rectified such non-compliance since then.</p> <p>On 17 May 2019, we obtained the approval of the acceptance inspection of the fire protection facilities from Luzhou Public Safety Fire Detachment* (瀘州市公安消防支隊).</p> <p>According to two confirmations issued by the Production Safety and Environmental Protection Office of Luzhou High-tech District* (瀘州高新技術產業開發區管理委員會) and Luzhou Public Safety Fire Detachment* (瀘州市公安消防支隊) on 12 March 2019 and 8 May 2019, respectively, (i) Luzhou Sipukang has passed the routine inspections conducted by the Production Safety and Environmental Protection Office of Luzhou High-tech District in relation to the compliance of the environmental protection and the fire protection, respectively; (ii) there is no record of any administrative punishments being imposed on Luzhou Sipukang; and (iii) as at 12 March 2019, there is no risk of Luzhou Sipukang being ordered to suspend production or operation.</p> <p>As advised by our PRC Legal Advisers, (i) the Production Safety and Environmental Protection Office of Luzhou High-tech District and Luzhou Fire Detachment are the competent authorities to issue such confirmations; and (ii) Luzhou Fire Detachment is the authorities responsible for conducting the acceptance inspection of the fire protection facilities.</p>

**Non-compliance incidents**

(3) Non-compliance with the national or industrial standards of the production safety of our Shenzhen Plant

Due to the inadvertent oversight of our production staff and absence of professional advice, our electrical circuits at our temporary storage space of hazardous materials at our Shenzhen Plant has not met the anti-explosion related requirements under national or industrial safety standards.

Time of occurrence: May 2018

**Reasons for non-compliance**

**Legal consequences including potential maximum penalty and other financial liabilities**

According to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), the design, use, test, improvement and scrapping of safety protection facilities shall comply with the relevant national and industrial standards. We may be ordered by competent authority to rectify such non-compliance within a prescribed deadline and imposed a fine of no more than RMB50,000 and a fine of RMB50,000 to RMB0.2 million if we fail to rectify within the prescribed deadline. We may also be ordered to suspend production in serious cases.

According to the decision on the administrative penalty (《行政處罰決定書》) issued by the Safe Production Supervision and Administration Bureau of Shenzhen Baoan District\* (深圳市寶安區安全生產監督管理局) on 7 June 2018, we were imposed a fine of RMB20,000 for such non-compliance incident. We have duly paid the relevant fine.

**Remedial actions and enhanced internal control**

According to a confirmation issued by Shenzhen Emergency Management Bureau\* (深圳市應急管理局) on 20 March 2019, (1) Shenzhen Sprocomm has paid for the fine of RMB20,000 pursuant to the decision on the administrative penalty issued on 7 June 2018; (2) such non-compliance is not a serious violation to the relevant laws and regulations; and (3) Shenzhen Sprocomm has rectified the non-compliance and there has not been any other non-compliance of the laws and regulations in relation to production safety since then.

As advised by our PRC Legal Advisers Shenzhen Emergency Management Bureau is the competent authority to issue such confirmation.

In view of the above, our PRC Legal Advisers are of the view that (i) the relevant non-compliance incident has been rectified and will not affect the operation of our Shenzhen Plant; and (ii) we are not subject to further penalties for such non-compliance.

To prevent the recurrence of non-compliance incidents relating to the production safety laws and regulations, (i) we will arrange our production managers to attend internal and external production safety trainings regarding production safety from time to time and ensure they are familiar with relevant production safety requirements; (ii) our production managers in our Luzhou Plant and Shenzhen Plant will cooperate and communicate with the relevant authorities in the production safety routine inspections, and report to the head of our production and production management department in case any potential non-compliance is identified. Our Internal Control Consultant have conducted follow up review on our enhanced safety control and there had been no material findings identified.

### INTERNAL CONTROL AND RISK MANAGEMENT

We put in place various internal control policies and measures to ensure continuing compliance of applicable laws, rules and regulations and to control our business risks on various facets. These facets and measures covered, include among others, the following:

**For the purpose of controlling and managing various business risks of our Group:**

- the management shall meet semi-annually or as called upon by any member of the audit committee which assumes the risk management function of our Group; the audit committee shall, with reference to the business and operation environment and financial position of our Group as well as the changes in the economic and political conditions, identify potential risks (such as business risks) faced by our Group and to assess such risks and implications to our Group; and the audit committee shall also design and develop measures to address and mitigate such risks as well as assign designated persons for implementation and subsequently monitoring and reporting of such measures. The biographies of the members of the audit committee are set out in “Directors and senior management” in this prospectus;
- We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:
  - we have set up and maintained a separate bank account, which is designated for the sole purpose of the deposit and deployment of the proceeds from the Global Offering or any other funds raised through the Stock Exchange;
  - we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, the audit committee needs to review and approve all relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, the audit committee will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The audit committee will check the counterparty against the various lists of restricted parties and countries maintained by the United States, the EU, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

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## BUSINESS

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- our Directors will continuously monitor the use of proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Countries subject to International Sanctions or Sanctioned Persons where this would be in breach of International Sanctions;
- the audit committee will periodically review our internal control policies and procedures with respect to sanctions matters. As and when the audit committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and
- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

**For the purpose of compliance with the applicable laws, rules and regulations:**

- to prevent the recurrence of non-compliance incidents of the Group, we have adopted various enhanced internal control policies and measures set out in the column headed “Legal compliance — Remedial actions and enhanced internal control” in this section;
- to prevent the recurrence of non-compliance incidents relating to the environmental protection and fire protection laws and regulations, for any future construction works to be carried out at our production base, our administrative manager, will ensure we obtain necessary approval(s) and/or registration(s) prior to commencing such works and/or putting the same into use and, if necessary, seek advice from an external legal adviser;
- to prevent the recurrence of non-compliance incidents relating to the production safety laws and regulations, (i) we will arrange our production managers to attend internal and external production safety trainings regarding production safety from time to time and ensure they are familiar with relevant production safety requirements; (ii) our production managers in our Luzhou Plant and Shenzhen Plant will cooperate and communicate with the relevant authorities in the production safety routine inspections, and report to our head of production, Mr. WEN Chuanchuan, in case any potential non-compliance is identified;

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In preparation for the Listing, we engaged SHINEWING Risk Services Limited, an independent third party professional internal control consultant (the “**Internal Control Consultant**”) to perform a review over all selected areas of our internal controls on (i) entity-level controls, including environmental control, risk assessment, control over activities, information and communication and monitoring in accordance with Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework) (“**COSO Framework Review**”); (ii) business process level controls, including financial reporting procedures, sales, accounts receivable and collection, production, cost of sales, procurement, accounts payable and payment, inventory management, bank and cash management, fixed and intangible assets, human resources and payroll, tax, insurance, information system control management; and (iii) and Listing Rules and corporate governance related and other regulatory compliance procedures (the “**Internal Control Review**”).

The initial review was conducted during mid July 2018 to early August 2018. Other than corporate governance related policies which we shall adopt and we have to put our various policies in writing in accordance with the COSO Framework Review, the Internal Control Consultant identified the following three major aspects relating to business process level control which require enhancement with recommendation:

<b>Aspects</b>	<b>Summary of findings</b>	<b>Summary of recommendations</b>
Financial reporting	<ul style="list-style-type: none"> <li>● No record is maintained for application and approval of new, amended and freeze of accounts in ledger;</li> <li>● Same personnel has the authorities to post, transfer and review supporting for bookkeeping, book close etc.</li> </ul>	<ul style="list-style-type: none"> <li>● Such acts shall be recorded and approved by head of finance</li> <li>● Authorities shall be allocated to different personnel</li> </ul>
Payroll and benefit management	<ul style="list-style-type: none"> <li>● The salaries or wages have been provided for in the following month of the labour rendered instead of at the month the labour rendered</li> <li>● Certain subsidiaries have not made contribution of social insurance and housing provident fund for all staff</li> </ul>	<ul style="list-style-type: none"> <li>● Salaries and wages shall be provided for at the month the labour was rendered</li> <li>● Registration and contribution of social insurance and housing provident fund shall be attended when the employment is commenced</li> </ul>

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Aspects	Summary of findings	Summary of recommendations
Recruitment and severance	<ul style="list-style-type: none"><li>• Employment contract is signed after probation instead of at the commencement of employment</li><li>• Insufficient notice was given by resigning staff and the relevant notice for resignation has not been reviewed or approved in accordance with the relevant internal policy</li></ul>	<ul style="list-style-type: none"><li>• Employment contract shall be signed at the commencement of employment</li><li>• Relevant internal policy shall be adhered to</li></ul>

There were a few other findings which are considered not material, and upon the follow-up review performed during February to March 2019 after our remedial actions being taken in accordance with the recommendation from the Internal Consultant during September 2018 to March 2019, there was no further material findings identified.

In light of the above non-compliance incident occurred, the Internal Control Consultant engaged by our Group performed follow up review on the enhanced internal control and raised no further recommendations. Our Directors are of the view, and the Sole Sponsor concurs that, the abovementioned non-compliance incident would not affect the suitability of our executive Directors under Rules 3.08 and 3.09 of the Listing Rules, having taking into account that (i) the non-compliances were unintentional and there was no indication that our Directors and senior management had a wilful tendency to operate the business in a non-compliance manner, (ii) the non-compliance incident did not involve any intentional misconduct, fraud, dishonesty or corruption on the part of our Directors; and (iii) the remedial actions having taken by our Directors and us.

- to prevent the recurrence of title defects in our future lease, we have adopted internal control policies and measures set out in “Properties — Defective title of leased properties” in this section;
- legal advisers as to Hong Kong law have provided training sessions to the Directors and senior management of our Group on the continuing obligations of a listed company in Hong Kong and on directors’ responsibilities and liabilities, and will provide training or regular seminars and updates twice a year on the continuing obligations of a listed company in Hong Kong and on directors’ responsibilities and liabilities to directors and senior management after the Listing;

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## BUSINESS

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- we have appointed Dakin Capital Limited as our compliance adviser with effect from the date of Listing to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong; and
- we engage external legal counsel to advise us on particular issues from time to time.

**For the purpose of controlling and managing various finance risks of our Group:**

- our Mr. Liu Shangheng, who has over 10 years of experience in financial work and management,
  - prepares the budgeting and financial analysis report quarterly to forecast the expected sales, raw material procurement and manning needs;
  - reviews the monthly management accounts prepared by the accounting team and involved in preparation of the financial statements of our Group;
  - prepares a financial analysis report to identify the discrepancy between the actual data with the previously forecast figures and the relevant reasons for the discrepancies and the overall the financial performance of the Group for the senior management team’s reference;
- to control the risk for investing in financial assets, from the date of this prospectus,
  - all the existing financial assets shall be closely monitored by our finance controller, Mr. Liu Shangheng;
  - no new investments can be made unless it is principal guaranteed;
  - all investments shall be assessed by our financial controller, Mr. Liu Shangheng after taking into account the maturity term, interests rate and features of proposed investments and analysis on impact on working capital and cashflow, identification of any legal risks from reviewing the terms with the assistance of any external legal advisers as Mr. Liu considers appropriate;
  - Mr. Liu Shangheng shall prepare an assessment report stating the factors considered as stated above to be submitted to our chief executive officer for approval shall he considers appropriate; and
  - single investment with principal amount exceeding RMB50 million or any new investments which would result in the outstanding principal sum of the financial assets exceeding RMB100 million which are endorsed by our chief executive officer shall be further approved by the audit committee who would re-assess the risks involved.

For the biography of Mr. Liu Shangheng, please see “Directors and senior management — Senior management” in this prospectus.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Leap Elite and Beyond Innovation will effectively hold as to approximately 37.0% and 30.5% of the total issued share capital of the Company, respectively. Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li's Family Trust established by himself. Mr. Li as the trustee and settlor of a discretionary trust is deemed to be interested in the Shares held by Leap Elite pursuant to the SFO.

Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong's Family Trust established by himself. Accordingly, Mr. Xiong as trustee and settlor of a discretionary trust is deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO.

As a result, Leap Elite, Mr. Li, Mr. Xiong and Beyond Innovation are considered as our Controlling Shareholders after the Global Offering.

### DELINEATION OF BUSINESS

As at the Latest Practicable Date, apart from our Group's business, none of our Controlling Shareholders, Directors and their respective close associates was engaged or had interest in any business which, directly or indirectly, competes or may compete with our Group's principal business, which would require disclosure under Rule 8.10 of the Listing Rules.

### CORPORATE GOVERNANCE MEASURES

The following corporate governance measures are expected to be adopted by our Company:

- (a) our interested Directors will not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested;
- (b) our independent non-executive Directors will also review, on an annual basis, all decisions made in relation to any new business opportunities offered during the year. Our Company will disclose such decisions and basis for them in our annual report or by way of announcement to the public;
- (c) our Company will appoint a compliance adviser who shall provide it with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws; and
- (d) any transaction (if any) between (or proposed to be made between) our Company and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### INDEPENDENCE OF MANAGEMENT, FINANCE AND OPERATION

Having considered the following factors, our Directors are satisfied that our Company will be able to be operationally and financially independent from our Controlling Shareholders and their respective close associates (other than our Company):

#### Management independence

Our Board comprises four executive Directors and four independent non-executive Directors.

The following table sets forth a summary of positions and roles held by our executive Directors and members of our senior management team within our Company, Leap Elite, Beyond Innovation and/or its close associates and/or the company controlled by our Controlling Shareholders other than our Group:

Name	Position in our Company	Position in Leap Elite, Beyond Innovation and related company of the Controlling Shareholders
Mr. Li	Executive Director, chief executive officer and chairman of the Board	Director of Leap Elite, general partner of Xiazhi Investment and Chunfen Investment, and general manager of Pengshan Hemiao Agricultural Co., Ltd.* (彭山禾苗農業有限公司) (“Pengshan Hemiao”) (Note)
Mr. Xiong	Executive Director and vice chairman of the Board	Director of Beyond Innovation

*Note:* Pengshan Hemiao is a company incorporated in the PRC controlled by Mr. Li and Mr. Xiong and is principally engaged in plantation and sales of vegetables, fruits, flowers and grasses with a paid-up capital of RMB0.1 million. To the best knowledge of our Directors after making reasonable enquiries, Pengshan Hemiao does not have any business relationship with the Group nor any of the customers or suppliers of the Group.

Save as disclosed above, none of our executive Directors or members of the senior management holds any directorship position in Leap Elite, Beyond Innovation, and related company of the Controlling Shareholders. Our executive Directors do not hold any executive role in any companies controlled by our Controlling Shareholders other than our Group. The companies controlled by our Controlling Shareholders do not have business which competes or may competes with the Group. Our Company’s management team is different from those of companies controlled by our Controlling Shareholders other than our Group. Therefore, there are sufficient non-overlapping Directors who are not executive management of companies controlled by our Controlling Shareholders other than our Group, and have relevant experience to ensure the proper functioning of the Board.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Despite the interest of our Controlling Shareholders in certain business outside our Company, we believe that our Directors and members of the senior management are able to perform their roles in our Company independently and that our Group is capable of managing our business independently from the Controlling Shareholders for the following reasons:

- (a) each Director is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and that he does not allow any conflict between his/her duties as a Director and his/her personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions;
- (c) our Board comprises eight Directors and four of them are independent non-executive Directors who represent not less than one-third of the members of the Board; this provides a balance between the number of interested and independent non-executive Directors with a view to promoting the interests of our Company and our Shareholders as a whole. This is also in line with the requirement as set out in the Listing Rules;
- (d) our independent non-executive Directors will bring independent judgment to the decision making process of our Board; and
- (e) our senior management team possesses in-depth experience and understanding of the industry in which our Group is engaged.

Based on the above, our Directors believe that our Company is capable of maintaining management independence from the Controlling Shareholders.

### **Financial independence**

Our financial auditing system is independent from our Controlling Shareholders and we employ our own team of financial accounting personnel. We have our own accounting and finance department, accounting systems, treasury function for cash receipts and payment and access to third party financing. We make financial decisions according to our business needs.

As at the Latest Practicable Date, no amount was owed by our Group to the Controlling Shareholders and/or their respective close associates.

Based on the above, our Directors believe that our Company is capable of maintaining financial independence from our Controlling Shareholders.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### **Operational independence**

Our Group engages in our smartphone and the relevant business independently, with the independent right to make operational decisions and implement such decisions. Our Group has an independent work force to carry out our operation and holds the licenses and qualifications that are essential to carry on our current business, and has sufficient capital, facilities and technology to operate the business independently from the Controlling Shareholders and/or their respective close associates. As set out in note 39 to the accountants' report in Appendix I to this prospectus, there has been no material related party transaction during the Track Record Period.

Having considered that (i) we have established our own organisational structure comprising individual departments and business and administrative units, each with specific areas of responsibilities and (ii) our Group does not share our operational resources, such as marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, as at the Latest Practicable Date, the following persons have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the number of any class of issued share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

#### Interest in our Company

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held <sup>(1)</sup>	Approximate percentage of interest in our Company
Leap Elite <sup>(2)</sup>	Beneficial interest	274,050 Shares (L)	49.33%
Beyond Innovation <sup>(3)</sup>	Beneficial interest	225,950 Shares (L)	40.67%
Mr. Li <sup>(2)</sup>	Founder of a discretionary trust	274,050 Shares (L)	49.33%
Mr. Xiong <sup>(3)</sup>	Founder of a discretionary trust	225,950 Shares (L)	40.67%
Ms. Sui <sup>(4)</sup>	Interest of Spouse	274,050 Shares (L)	49.33%
Ms. Yan <sup>(5)</sup>	Interest of Spouse	225,950 Shares (L)	40.67%
JZ Capital <sup>(6)</sup>	Beneficial interest	55,556 Shares (L)	10.00%
Mr. Ko Hin Ting, James <sup>(6)</sup>	Interest in a controlled corporation	55,556 Shares (L)	10.00%

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## SUBSTANTIAL SHAREHOLDERS

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*Notes:*

- (1) The letter “L” denotes the person’s long position in the shares of our Company.
- (2) Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li’s Family Trust found by himself. Accordingly, Mr. Li is deemed to be interested in the Shares held by Leap Elite pursuant to the SFO.
- (3) Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong’s Family Trust found by himself. Accordingly, Mr. Xiong is deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO.
- (4) Ms. Sui is the spouse of Mr. Li. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Li.
- (5) Ms. Yan is the spouse of Mr. Xiong. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Xiong.
- (6) JZ Capital 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 pursuant to the SFO.

### **Interest in our subsidiary**

In addition to the above and so far as our Directors are aware, as at the Latest Practicable Date, the following person is directly interested in 10% or more of the issued voting shares of our subsidiaries:

<b>Name of Subsidiary</b>	<b>Substantial shareholder of such subsidiary</b>	<b>Approximate percentage of shareholding in such subsidiary</b>
Chengdu Sprocomm	Mr. Zou Tongliang	33.33%

Save as disclosed herein, our Directors are not aware of any person who, as at the Latest Practicable Date, have an interest or short position in our Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% of the issued voting shares of any other member of our Group.

So far as our Directors are aware, each of the following persons will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock

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## SUBSTANTIAL SHAREHOLDERS

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Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group:

### Interest in our Company

Shareholders	Capacity/Nature of interest	Number of Shares held <sup>(1)</sup>	Percentage of shareholding in our Company
Leap Elite <sup>(2)</sup>	Beneficial owner	369,967,204 Shares (L)	37.0%
Beyond Innovation <sup>(3)</sup>	Beneficial owner	305,032,256 Shares (L)	30.5%
Mr. Li <sup>(2)</sup>	Founder of a discretionary trust	369,967,204 Shares (L)	37.0%
Mr. Xiong <sup>(3)</sup>	Founder of a discretionary trust	305,032,256 Shares (L)	30.5%
Ms. Sui <sup>(4)</sup>	Interest of spouse	369,967,204 Shares (L)	37.0%
Ms. Yan <sup>(5)</sup>	Interest of spouse	305,032,256 Shares (L)	30.5%
JZ Capital <sup>(6)</sup>	Beneficial interest	75,000,540 Shares (L)	7.5%
Mr. Ko Hin Ting, James <sup>(6)</sup>	Interest in a controlled corporation	75,000,540 Shares (L)	7.5%

*Notes:*

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in our Shares.
- (2) Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li’s Family Trust found by himself. Accordingly, Mr. Li is deemed to be interested in the Shares held by Leap Elite pursuant to the SFO.
- (3) Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong’s Family Trust found by himself. Accordingly, Mr. Xiong is deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO.
- (4) Ms. Sui is the spouse of Mr. Li. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Li.



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## SUBSTANTIAL SHAREHOLDERS

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- (5) Ms. Yan is the spouse of Mr. Xiong. By virtue of the SFO, she is deemed to be interested in the Shares held by Mr. Xiong.
- (6) JZ Capital 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 pursuant to the SFO.

In addition to the above and so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue, the following person is directly interested in 10% or more of the issued voting shares of our subsidiaries:

<b>Name of subsidiary</b>	<b>Substantial shareholder of such subsidiary</b>	<b>Approximate percentage of shareholding in such subsidiary</b>
Chengdu Sprocomm	Mr. Zou Tongliang	33.33%

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% of the issued voting shares of any other member of our Group.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS AND SENIOR MANAGEMENT

The Board consists of eight members, four of whom are independent non-executive Directors. The power and duties of the Board include convening shareholders' meetings and reporting the Board's work at shareholders' meeting, implementing resolutions passed at shareholders' meetings, determining our Group's business plans and investment plans, formulating our Group's annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of share capital as well as exercising other powers, functions and duties as conferred by the Memorandum and Articles of Association. All the executive Directors have entered into service contracts with our Group.

The following table sets out the information regarding the current Directors of our Company.

Name	Age	Present position in our Company	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Directors and members of our senior management
Mr. Li Chengjun (李承軍先生)	47	Executive Director, chief executive officer and chairman of the Board	16 September 2009	15 August 2018	Corporate strategic planning, overseeing the overall operations, day-to-day management and business development of our Group	None
Mr. Xiong Bin (熊彬先生)	42	Executive Director and vice chairman of the Board	16 September 2009	15 August 2018	Overseeing the sales and marketing of our Group	None
Mr. Li Hongxing (李紅星先生)	40	Executive Director	24 November 2009	25 March 2019	Overseeing the research and development of our Group's products	None
Mr. Guo Qinglin (郭慶林先生)	36	Executive Director	18 January 2010	25 March 2019	Managing the operation of supply chain and sales activities of our Group	None
Mr. Hung Wai Man (洪為民先生)	50	Independent non-executive Director	18 October 2019	18 October 2019	Supervising and providing independent judgement to the Board	None
Mr. Wong Kwan Kit (黃昆杰先生)	47	Independent non-executive Director	18 October 2019	18 October 2019	Supervising and providing independent judgement to the Board	None
Mr. Lu Brian Yong Chen (呂永琛先生)	55	Independent non-executive Director	18 October 2019	18 October 2019	Supervising and providing independent judgement to the Board	None
Ms. Tseng Chin I (曾瀾漪女士)	50	Independent non-executive Director	18 October 2019	18 October 2019	Supervising and providing independent judgement to the Board	None

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## DIRECTORS AND SENIOR MANAGEMENT

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### Senior management

The following table sets out certain information regarding the current members of our senior management:

Name	Age	Present position in our Company	Date of joining our Group	Date of appointment as our senior management	Roles and responsibilities	Relationship with other Directors and members of our senior management
Mr. Liu Shangheng (劉尚恒先生)	36	Financial controller	21 December 2011	21 December 2011	Developing financial strategies and overseeing financial operations of our Group	None
Mr. Wen Chuanchuan (溫川川先生)	33	Head of production	21 September 2016	21 September 2016	Overseeing the manufacturing activities of our Group's plants	None

### Executive Directors

**Mr. LI Chengjun (李承軍)**, aged 47, is our executive Director, the chief executive officer and the chairman of the Board and is mainly responsible for corporate strategic planning, overseeing the overall operations, day-to-day management and business development of our Group. Mr. Li established Shenzhen Sprocomm, our main operating subsidiary, with Mr. Xiong on 16 September 2009 and has been the general manager of Shenzhen Sprocomm since then. He is also currently the director of Shenzhen Sprocomm, Sprocomm Intelligence HK, HK Sprocomm, Guizhou Sprocomm, Chengdu Sprocomm and Guizhou Mars. Mr. Li has been our Director since 15 August 2018 and has been re-designated as an executive Director since 25 March 2019.

Mr. Li has more than 20 years of relevant experience in the mobile communications industry. Prior to joining our Group, Mr. Li held a senior management position in the wireless network department and terminal department of Shenzhen Huawei Technologies Co., Ltd\* (深圳華為技術有限公司), a company principally engaged in the telecommunication equipment business from April 1997 to February 2007, where he was mainly responsible for the research and development of communication terminal and sales and marketing. From August 2007 to June 2009, Mr. Li served as the chief executive officer of the business operation headquarters of SIM Technology Group Limited (晨訊科技集團有限公司) (stock code of Stock Exchange: 02000) (“**SIM Technology**”), a company whose shares are listed on the Stock Exchange and is principally engaged in the manufacturing, design and development and sale of liquid crystal display modules, mobile handset solutions, and wireless communication module solutions, where he was mainly responsible for overseeing its PRC operation and management. Mr. Li is also the director of Leap Elite, one of the Controlling Shareholders of our Company, and the director of Grace Kirin, the direct wholly-owned subsidiary of our Company.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Li graduated from Beihang University (北京航空航天大學) in July 1994 with a bachelor degree majoring in electrical technology, and then, graduated with a master degree of engineering in March 1997.

Mr. Li was a director or a supervisor of the following companies prior to their dissolution or at the time of its business license revocation with details as follows:

Company name	Place of incorporation	Position before dissolution/ business license revocation	Nature of proceeding/ status	Date of dissolution/ business license revocation
Shenzhen Hezhong Communication Technology Co., Ltd* (深圳市和眾通信技術有限公司) <i>Note 1</i>	China	Supervisor	Revocation of business license	21 June 2019
AREOX Technologies Co., Limited (火星探索科技(香港)有限公司) <i>Note 2</i>	Hong Kong	Director	Deregistration	23 November 2018
Shenzhen Sipuxin Communication Equipment Co., Ltd* (深圳思普信通信設備有限公司)	China	Supervisor	Cancellation	29 June 2018
Sprocomm Communication Technology (Wuxi) Co., Ltd* (禾苗通信技術(無錫)有限公司)	China	Director and general manager	Cancellation	3 May 2017

*Notes:*

1. The business licence was revoked as the company was inactive with no substantial business operation and the company had omitted the requirement of annual inspection which resulted in revocation of its business licence.
2. Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of such company agreed to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operations for more than three months immediately before the application for deregistration; and (c) such company has no outstanding liabilities.

Under section 750 of the Companies Ordinance, an application for deregistration can only be made if in addition to the conditions for section 291AA of the Predecessor Companies Ordinance mentioned above, (a) the company is not a party to any legal proceedings; (b) the company's assets do not consist of any immovable property situate in Hong Kong; and (c) if the company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

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## DIRECTORS AND SENIOR MANAGEMENT

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As confirmed by Mr. Li, each of the above companies was inactive and solvent at the time when dissolved or the business license was revoked and there was no wrongful act on his part leading to the dissolution or revocation of business license and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution or business license revocation.

**Mr. XIONG Bin (熊彬)**, aged 42, is our executive Director and vice chairman of the Board and is mainly responsible for overseeing the sales and marketing of our Group. Mr. Xiong is one of the founders of Shenzhen Sprocomm on 16 September 2009 and has been serving as its director and vice general manager since 8 August 2018 and 16 September 2009 respectively. He is also currently the supervisor of Shanghai Sprocomm, Guizhou Sprocomm, Guizhou Mars and Luzhou Sipukang. Mr Xiong has been our Director since 15 August 2018 and has been re-designated as an executive Director since 25 March 2019.

Mr. Xiong has over 15 years of relevant experience in the mobile communications industry. Prior to joining our Group, Mr. Xiong served in Amoi Electronics Co., Ltd. (夏新電子股份有限公司) (“**Amoi Electronics**”) from July 1999 to May 2008, where he first served as the vice general manager of finance department responsible for handling the export business and finance work of the overseas subsidiaries and later as the vice general manager of the overseas sales department responsible for overseas sales of smartphone products. Amoi Electronics is principally engaged in research, manufacturing and sales of smartphone and other electronic products. From May 2008 to August 2009, Mr. Xiong served as the general manager of the overseas sales department of SIM Technology, where he was mainly responsible for marketing and sales of the overseas smartphone ODM business.

Mr. Xiong graduated from Huazhong University of Science and Technology (華中理工大學) in June 1999 and obtained a bachelor degree of economics majoring in taxation. Mr. Xiong also obtained the qualification of Certified Public Accountant (non-practising) in the PRC in December 2004.

Mr. Xiong was a director or chairman of the following companies prior to their dissolution with details as follows:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Position before dissolution</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
Shenzhen Sipuxin Communication Equipment Co., Ltd* (深圳思普信通信設備有限公司)	China	Executive director and general manager	Cancellation	29 June 2018
Sprocomm Communication Technology (Wuxi) Co., Ltd* (禾苗通信技術(無錫)有限公司)	China	Chairman	Cancellation	3 May 2017

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## DIRECTORS AND SENIOR MANAGEMENT

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As confirmed by Mr. Xiong, each of the above companies was inactive and solvent at the time when dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

**Mr. LI Hongxing (李紅星)**, aged 40, is our executive Director and is mainly responsible for overseeing the research and development of our Group's products. Mr. Li Hongxing has been a Director since 25 March 2019. Mr. Li Hongxing has been serving as the vice president of Shenzhen Sprocomm and the director of the product research and development department since 24 November 2009, and the director of Shenzhen Sprocomm since 8 August 2018. He is also currently the director of Shanghai Sprocomm.

Mr. Li Hongxing has over 10 years of relevant experience in the mobile communications industry. Prior to joining our Group, Mr. Li Hongxing served as a technician of Shanghai Hongyue Communication Technology Company Limited\* (上海泓越通訊技術有限公司) from July 2002 to October 2003, a company principally engaged in research and development of digital radio communication terminal equipment and transmission equipment, where he was mainly responsible for research and development of the communication products. From January 2006 to March 2007, Mr. Li Hongxing served as the research and development manager of Sailong Shenke Communication Technology (Shanghai) Company Limited\* (賽龍申科通信技術(上海)有限公司), a company principally engaged in technology development of communication products and system engineering, where he was mainly responsible for research and development of the electronic communication products. From November 2007 to June 2009, Mr. Li Hongxing had been a research and development director of Jiandao Communication Products Company Limited\* (簡道通信產品有限公司), a company principally engaged in manufacturing and sales of communication equipment and the relevant products and the electronic products, where he was mainly responsible for research and development of the products. Mr. Li Hongxing served as the research and development director of Shanghai Feiyang Electronic Technology Company Limited\* (上海菲陽電子科技有限公司) from July 2009 to November 2009, a company principally engaged in manufacturing and sales of electronic products, where he was mainly responsible for research and development of the products and management of the research and development team.

Mr. Li Hongxing graduated from East China Normal University (華東師範大學) in July 2002 and obtained a bachelor degree of science majoring in electronics and information systems.

Mr. Li Hongxing was a director or supervisor of the following company prior to its dissolution with details as follows:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Position before dissolution</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
Sprocomm Communication Technology (Wuxi) Co., Ltd* 禾苗通信技術(無錫)有限公司	China	Chairman	Cancellation	3 May 2017

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## DIRECTORS AND SENIOR MANAGEMENT

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As confirmed by Mr. Li Hongxing, the above company was inactive and solvent at the time when dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

**Mr. GUO Qinglin (郭慶林)**, aged 36, is our executive Director and is mainly responsible for managing the operation of supply chain and sales activities of our Group. Mr. Guo has been a Director since 25 March 2019. Mr. Guo has served as the deputy director and head of the marketing and sales department of Shenzhen Sprocomm from January 2010 to November 2017 and director of the supply chain operation centre of Shenzhen Sprocomm since December 2017.

Mr. Guo has approximately 12 years of relevant experience in the mobile communications industry. Prior to joining our Group, Mr. Guo served as a manager in the overseas sales department of Amoi Electronics from September 2005 to December 2008, where he was mainly responsible for developing overseas customers, maintaining the customer relationship and sales of the company's main products. From April 2009 to December 2009, Mr. Guo served as sales director in the overseas sales department of Nanjing Wanlida Technology Co., Ltd.\* (南靖萬利達科技有限公司), a company principally engaged in the production of computers, mobile phones and projectors, where he was mainly responsible for developing overseas customers, maintaining the customer relationship and sales of the company's main products.

Mr. Guo graduated from Jimei University\* (集美大學) in July 2005 and obtained a bachelor degree of economics majoring in international economy and trading.

### **Independent non-executive Directors**

**Mr. HUNG Wai Man JP (洪為民)**, aged 50, was appointed as our independent non-executive Director on 18 October 2019. Mr. Hung was awarded as a Justice of the Peace in July 2015 and elected as the Hong Kong representative of the 13th National People's Congress of the PRC in December 2017.

Mr. Hung has been serving as a director of Qianhai International Liaison Services Ltd., a company under the Qianhai Authority serving as a liaison office for the Authority in Hong Kong, since May 2014, and an independent non-executive director of VSTECS Holdings Limited (stock code: 00856), a company whose shares are listed on the Stock Exchange and is principally engaged in offering information, communication and technology products and services, since May 2016. Mr. Hung has been an independent non-executive director of LH Group Limited (stock code: 01978), a company whose shares are listed on the Stock Exchange and is principally engaged in operation of full service multi-brand restaurants in Hong Kong, since May 2018; and an independent non-executive director of Sino Hotels (Holdings) Limited (stock code: 01221), a company whose shares are listed on the Stock Exchange and is principally engaged in operating hotels in Hong Kong, since January 2019.



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Hung has over 20 years of experience in management consulting, project management and contracting service. Prior to joining our Group, Mr. Hung served as a manager of Datacheck Limited from July 1987 to August 1989. From September 1989 to August 1991, Mr. Hung worked as manager in Ever Idea Development Limited. From April 1991 to October 1996, Mr. Hung served as a director of Wit's Consultant Limited. Mr. Hung then served as manager of the system integration department of AT&T Asia Pacific Group Limited for a term of two years from August 1996 to April 1998. From August 1998 to April 2004, Mr. Hung served for Atos Origin Limited (源訊有限公司) where his last position was North Asia Vice President and District and Country Manager — Hong Kong. Mr. Hung then served as the director of the corporate market at Jardine OneSolution (HK) Limited (怡和科技顧問有限公司) from March 2004 to March 2006. From August 2006 to August 2013, Mr. Hung worked as the executive vice president of Next Horizon Company Ltd (香港昊新有限公司). Mr. Hung was an independent non-executive director of Hsin Chong Group Holdings Limited (stock code: 00404), a company whose shares are listed on the Stock Exchange and is principally engaged in construction and property businesses, from January 2019 to September 2019.

Mr. Hung was elected as a member of the British Computer Society in March 2002 and was subsequently awarded Chartered Information Technology Professional Fellowship in July 2008. Mr. Hung was admitted as a fellow by the Hong Kong Institute of Directors and the Hong Kong Computer Society in July 2002 and January 2008 respectively.

Mr. Hung graduated from Hong Kong Polytechnic (currently the Hong Kong Polytechnic University) in November 1988 and obtained a higher diploma majoring in mathematics, statistics and computing. Mr. Hung obtained his degree of Bachelor of Arts in business administration from Bolton Institute of Higher Education in July 1997 (through long distance learning). Mr. Hung also obtained a master degree majoring in business administration from The University of Hull in December 1995 (through long distance learning), a degree of Master of Arts from The Chinese University of Hong Kong in December 2006 and a master of laws from Renmin University of China in June 2011. Mr. Hung obtained a degree of Doctor of Philosophy in Business Administration from the Bulacan State University in December 2012 (through long distance learning).

Mr. Hung was a director of the following company prior to its dissolution with details as follows:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Position before dissolution</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
BIZCONLINE HOLDING LIMITED (必確能控股有限公司) <i>Note 1</i>	Hong Kong	Director	Striking off	22 December 2017

*Note 1:*

Under section 746 of the Companies Ordinance, (1) after publishing a notice under section 744(3) or 745(2)(b), the registrar may, unless cause is shown to the contrary, strike the company's name off the Companies Register at the end of three months after the date of the notice; (2) the registrar must publish in the Gazette a notice indicating that the company's name has been struck off the Companies Register; and (3) on publication of the notice under subsection (2), the company is dissolved.

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## DIRECTORS AND SENIOR MANAGEMENT

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As confirmed by Mr. Hung, the above company was inactive and solvent at the time when dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

**Mr. WONG Kwan Kit (黃昆杰)**, aged 47, was appointed as our independent non-executive Director on 18 October 2019.

Mr. Wong has over 18 years of experience in accounting and financial management, mergers and acquisitions gained from certain finance related positions in companies listed in Hong Kong. From January 1994 to January 1997, Mr. Wong worked in New World Hotels International Limited (currently known as RHIL Limited), a company was then principally engaged in supervising 16 hotel subsidiaries, where Mr. Wong first served as an accounting assistant in the accounts department and later promoted to accounting supervisor in July 1996 mainly responsible for overseeing the daily operation of accounting department to ensure efficiency and compliance. From December 1996 to June 2001, Mr. Wong was employed as an accountant by Lamex Holdings Ltd, a company principally engaged in manufacturing and sale of office furniture, where he was mainly responsible for reviewing financial statement, preparing consolidated statements and overseeing the financial management of subsidiaries. He then worked as an accounting manager in Lung Cheong Toys Limited (stock code: 00348) (currently known as China Healthwise Holdings Limited), from June 2001 to November 2001, where his main duty was to prepare financial statement for the company's PRC factories. During the period of July 2002 to July 2003, Mr. Wong served as a finance manager in finance and administration department of Datawin Limited, where he was mainly responsible for handling the financial work of the company's domestic business and reporting to the chief financial officer. During the period from November 2003 to October 2007, Mr. Wong worked as an accounting manager in Man Yue Electronics Co., Ltd (stock code: 00894) (currently known as Man Yue Technology Holdings Limited), a Hong Kong listed company primarily engaged in production of electrolytic capacitors, where his main duty was to oversee the financial operation of several domestic subsidiaries. Mr. Wong then served as the financial controller in China Wind Power Group Co. Ltd. (currently known as Concord New Energy Group Co., Ltd.) (stock code: 00182), a Hong Kong listed company focused on the wind power business, during the period from October 2007 to February 2013, where he was responsible for overseeing the overall financial activities of the group. From August 2013 to December 2016, Mr. Wong served as a financial controller in Sino Credit Holdings Limited (stock code: 00628) (currently known as Gome Finance Technology Co., Ltd.), a company listed on the Stock Exchange primarily engaged in business of financial leasing and commercial factoring, during which Mr. Wong was primarily responsible for the overall financial work of the group. He then served as the financial controller in Heng Chuang Group Co., Ltd. (恒創集團有限公司) since 1 January 2017, a company primarily engaged in investment and loan business in Hong Kong and the PRC, and his major duty is overseeing all financial activities of the Company. Mr. Wong has been serving as an independent non-executive director of Culturecom Holdings Limited (stock code: 00343), a company whose shares are listed on the Stock Exchange and is principally engaged in publishing and intellectual properties licensing, online and social business, retailing and wholesales of wine and catering since July 2018. Mr. Wong has also been serving as an independent non-executive director of Man Sang International Ltd. (stock code:00938) since

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## DIRECTORS AND SENIOR MANAGEMENT

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November 2018, a company whose shares are listed on the Stock Exchange and is principally engaged in the development, sales and leasing of properties. Mr. Wong has been a fellow member of the Hong Kong Institute of Certified Public Accountants since February 2008.

Mr. Wong obtained a master degree of business administration majoring in finance from the Chinese University of Hong Kong in December 2010.

**Mr. LU Brian Yong Chen (呂永琛)**, aged 55, was appointed as our independent non-executive Director on 18 October 2019. Mr. Lu has been serving as an independent non-executive Director of InvesTech Holdings Limited (stock code: 1087), a company whose shares are listed on the Stock Exchange and is principally engaged in designs, development and provision of communication system and manufacture and sale of signal transmission and connectivity products since June 2015.

Mr. Lu has over 21 years of management experience in Fortune 100 companies in Australia, Hong Kong and the PRC, assisting in their business transformation and growth. Prior to joining our Group, Mr. Lu served as a manager, design/architecture of IBM Australia Limited, a company principally engaged in manufacturing and selling computer hardware and software and providing relevant services from May 1995 to April 2001, where he was responsible for managing network architecture. From April 2001 to June 2012, Mr. Lu then served as a client unit executive in the IBM global technology services department of IBM China/Hong Kong Limited, a company principally engaged in manufacturing and selling computer hardware and software and providing relevant services, where he was responsible for the department's strategic planning and execution. Mr. Lu was an industry consultant of IBM (China) Company Limited, a company principally engaged in manufacturing and selling computer hardware and software and providing relevant services from June 2012 to June 2015.

Mr. Lu graduated from South China University of Technology (華南理工大學) with a bachelor degree majoring in engineering in Computer Science in July 1986 and from the University of New South Wales, Australia with a master degree of information science in October 1994.

**Ms. TSENG Chin I (曾瀾漪)**, aged 50, was appointed as our independent non-executive Director on 18 October 2019.

Ms. Tseng is a media veteran with over 21 years of experience in Hong Kong, including hosting, presenting and moderating television programmes and forums in relation to the PRC and international economy and finance. Ms. Tseng has been serving as a presenter in Phoenix Satellite Television Company Limited (鳳凰衛視有限公司), which is an indirectly wholly-owned subsidiary of Phoenix Satellite Television Holdings Limited (currently known as Phoenix Media Investment (Holdings) Limited (stock code: 2008), a company listed on the Main Board of the Stock Exchange, where she is responsible for hosting and presenting television programmes and broadcasts relating to the PRC and international economy and finance. She has also been a standing committee member of Ifeng Finance Institute (鳳凰網財經研究院), a non-profit making research institute focusing on providing financial information via expert interview, conference reports, research reports, financial and wealth management forums since November 2016. She has been a life associate member of the Hong Kong Independent Non-Executive Director Association since January 2017.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Tseng graduated from Fu Jen Catholic University (天主教輔仁大學, formerly known as 私立輔仁大學) with a bachelor degree of arts majoring in mass communication in June 1991.

Ms. Tseng was a director of the following company prior to its dissolution with details as follows:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Position before dissolution</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
Oriental Spring (Hong Kong) Company Limited (東方極草(香港)有限公司) <i>Note 1</i>	Hong Kong	Director	Deregistration	2 January 2015

*Note 1:*

Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of such company agreed to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operations for more than three months immediately before the application for deregistration; and (c) such company has no outstanding liabilities.

Under section 750 of the Companies Ordinance, an application for deregistration can only be made if in addition the conditions for section 291AA of the Predecessor Companies Ordinance mentioned above, (a) the company is not a party to any legal proceedings; (b) the company's assets do not consist of any immovable property situate in Hong Kong; and (c) if the company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

As confirmed by Ms. Tseng, the above company was inactive and solvent at the time when dissolved and there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim that has been or will be made against her as a result of such dissolution.

As at the Latest Practicable Date, save as disclosed in this prospectus, (i) none of the Directors held any other major appointment or directorship in other listed company in the preceding three years, nor did any of the Directors have any relationship with any Director, senior management, substantial shareholder, or controlling shareholders of the Company; (ii) none of the Directors held other positions with the Company or other members of the Group; (iii) none of the Directors were interested in any shares of the Company within the meaning of Part XV of the SFO, and (iv) to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters with respect of the appointment of the Directors that need to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Senior management

**Mr. LIU Shangheng (劉尚恆)**, aged 36, has been serving as the financial controller of Shenzhen Sprocomm since December 2011.

Mr. Liu has over 10 years of experience in financial work and management. Prior to joining our Group, Mr. Liu held office relating to cost accounting in Qingdao Haixin Communication Technology Company Limited\* (青島海信通信技術有限公司), a company principally engaged in research, development, manufacturing and sales of mobile communication terminal products from August 2006 to October 2008, where he was mainly responsible for production cost accounting, cost analysis and control related work. Mr. Liu then served as a director of finance in Shenzhen Xiongtao Power Supply Technology Company Limited\* (深圳市雄韜電源科技股份有限公司), a company principally engaged in research, manufacturing and sales of battery from November 2008 to October 2011, where he was mainly responsible for cost accounting and preparing the financial statements and analysis.

Mr. Liu graduated from the Zhongnan University of Economics and Law (中南財經政法大學) in June 2006 and obtained two bachelor degrees majoring in accounting and economics.

**Mr. WEN Chuanchuan (溫川川)**, aged 33, our head of production, has served as the director of the manufacturing centre of Shenzhen Sprocomm since 21 September 2016, and is currently responsible for supervising the operation of our production plants. He is also currently the director of Luzhou Sipukeng and the general manager of Chengdu Sprocomm.

Prior to joining our Group, Mr. Wen worked as an assistant engineer of Huawei Machine Company Limited\* (華為機器有限公司), a company principally engaged in research, development, manufacturing and sales of communication products from July 2011 to October 2014, where he was mainly responsible for reviewing the manufacturing plan and leading trial verification for new smartphone products. Mr. Wen served as a director of the assembly plant of Shenzhen Andao Yunke Company Limited\* (深圳安道雲科股份有限公司), a company principally engaged in development and manufacturing of smart terminals, capacitive touch screens, machine assembly, metal and glass components and mobile phone accessories from November 2014 to September 2016, where he was responsible for the establishment of machine assembly department and assisting in the operation of the company's departments and subsidiaries.

Mr. Wen graduated from the Northwest A&F University (西北農林科技大學) with a bachelor degree of management majoring in electronic commerce in the PRC in July 2008, and also, graduated from the Xi'an Jiaotong University\* (西安交通大學管理學院) in June 2011 and obtained a master degree of engineering majoring in industrial engineering.

### COMPANY SECRETARY

**Ms. Jian Xuegen (簡雪艮)**, aged 34, was appointed as the company secretary of our Group on 21 September 2019.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Jian obtained her Bachelor's degree in Accountancy from the South China University of Technology in July 2008. She is currently a member of the Hong Kong Institute of Certified Public Accountants. She has also been a member of the Chinese Institute of Certified Public Accountants since December 2010.

Ms. Jian joined Ernst & Young Hua Ming LLP Guangzhou Branch in November 2008 and left with her last position as manager in the assurance department in December 2016. Since December 2016, she worked in Eternity Technology Holdings Limited, a company listed on the Stock Exchange (stock code: 1725) and principally engaged in the provision of OEM services, as the financial controller and was responsible for financial reporting, financial planning, treasury and financial control of the company. Since February 2019, Ms. Jian has joined Wisdom Professional Limited, a professional services provider specialising in corporate and investor services, with her position as consultant of Wisdom Professional Limited and is responsible for providing professional corporate secretarial services to companies listed on the Stock Exchange. Since February 2019, Ms. Jian is also the company secretary of Confidence Intelligence Holdings Limited, a company listed on the Stock Exchange (stock code: 1967).

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Under code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li is our chief executive officer, and he also performs as the chairman of our Board as he has considerable experience in the mobile communication industry. Our 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 our Group and enables more effective and efficient overall strategic planning of our Group.

Save as disclosed above, our Company expects to comply with the CG Code. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the Listing.

### BOARD COMMITTEES

#### Audit Committee

The Board has approved to establish the Audit Committee with written terms of reference in compliance with Rule 3.21 and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules on 18 October 2019 with effect upon the Listing. The primary duties of the Audit Committee include ensuring that an effective financial reporting, internal control and risk management systems are in place and compliance of the Listing Rules, controlling the completeness of our Company's financial statements, selecting external auditors and assessing their independence and qualifications, and ensuring the effective communication between our internal and external auditors.



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## DIRECTORS AND SENIOR MANAGEMENT

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The Audit Committee initially comprises three members, namely Mr. Wong Kwan Kit, Mr. Lu Brian Yong Chen and Mr. Hung Wan Man *JP*. Mr. Wong Kwan Kit is the chairman of the Audit Committee.

### **Remuneration Committee**

The Board has approved to establish the Remuneration Committee with written terms of reference in compliance with Rule 3.25 and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules on 18 October 2019 with effect upon the Listing. The primary duties of the Remuneration Committee include assisting the Board in determining the remuneration policy for and structure of our Directors and senior management, reviewing incentive schemes and service contracts of our Directors, and ensuring the execution of the remuneration packages of the executive Directors and senior management.

The Remuneration Committee initially comprises four members, namely Mr. Hung Wai Man *JP*, Mr. Wong Kwan Kit, Mr. Lu Brian Yong Chen and Ms. Tseng Chin I. Mr. Hung Wai Man *JP* is the chairman of the Remuneration Committee.

### **Nomination Committee**

The Board has approved to establish the Nomination Committee with written terms of reference in compliance with paragraph A.5.1 of Appendix 14 to the Listing Rules on 18 October 2019 with effect upon the Listing. The primary duties of the Nomination Committee include assisting the Board in identifying suitable candidates for our Directors and making recommendations to the Board, assessing the structure and composition of the Board, preparing, making recommendations to and supervising the execution of the nomination policy of our Company.

The Nomination Committee initially comprises four members, namely Mr. Li Chengjun, Mr. Wong Kwan Kit, Mr. Lu Brian Yong Chen and Ms. Tseng Chin I. Mr. Li Chengjun is the chairman of the Nomination Committee.

We have adopted the board diversity policy (“**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavor to ensure that our Board members have the appropriate balance of skills, experience, and diversity of perspectives that are required to support the execution of its business strategy. Pursuant to the Board Diversity Policy, a number of factors will be taken into account in determining the board composition to achieve board diversity, including but not limited to professional experience, skills, knowledge, age, gender, education, cultural background and length of service. Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant code governing board diversity under the CG Code. Upon Listing, our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness including assessing annually on the board’s diversity profile including gender balance, taking opportunities to increase the



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## DIRECTORS AND SENIOR MANAGEMENT

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proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments and we will disclose in our corporate governance report about the implementation of the Board Diversity Policy on annual basis.

### COMPLIANCE ADVISER

Our Company has appointed Dakin Capital Limited, in accordance with Rule 3A.19 of the Listing Rules, as our compliance adviser for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Pursuant to 3A.23 of the Listing Rules, the compliance adviser will provide advice to us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notification or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds from the Global Offering in a manner different from that detailed in this prospectus or if our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes any inquiry to us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment will commence on the Listing Date and end on the date on which we distribute the annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

### REMUNERATION POLICY

We value our employees and recognise the importance of a good relationship with our employees. The remuneration to our employees includes salaries, discretionary bonuses, contributions to pension schemes, housing allowances and other allowances and benefits.

Our Directors and senior management receive compensation in the form of salaries, discretionary bonuses, contributions to pension schemes, housing allowances and other allowances and benefits subject to applicable laws, rules and regulations. The aggregate amounts of emoluments (including fees, salaries and other benefits, performance related bonus and retirement benefit scheme contribution) paid to our Directors during the Track Record Period were RMB0.8 million, RMB0.9 million, RMB1.2 million and RMB0.3 million, respectively.

During the Track Record Period, the aggregate amounts of emoluments (including fees, salaries and other benefits, performance related bonus and retirement benefit scheme contribution) paid to the five highest paid individuals were RMB2.0 million, RMB2.2 million, RMB2.8 million and RMB0.7 million, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the Track Record Period.

The primary goal of the remuneration policy with regard to the remuneration packages of our executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our executive Directors remuneration packages include basic salaries and discretionary bonuses.

Under the arrangements currently in force, we estimate that the aggregate amounts of emoluments (excluding discretionary bonus) payable to and benefits in kind receivable by our Directors (including independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2019 will be approximately RMB1.8 million.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Further information on the remuneration of each Director during the Track Record Period as well as information on the highest paid individuals is set out in note 12 and note 13 to the accountants' report as set out in Appendix I to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions and efficiency to our 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 our Group. Additionally, in the case of the executive directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of this scheme are summarised in “Statutory and general information — Other information — 1. Share Option Scheme” in Appendix IV to this prospectus.

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## SHARE CAPITAL

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### AUTHORISED AND ISSUED SHARE CAPITAL

Assuming the Over-allotment Option and options granted under the Share Option Scheme are not exercised, the authorised and issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering is set out as follows:

<i>Authorised Share Capital:</i>		<i>HK\$</i>
10,000,000,000	Shares of HK\$0.01 each	100,000,000
 <i>Shares of HK\$0.01 each in issue and to be issued, fully paid or credited as fully paid:</i>		
555,556	Shares in issue at the date of this prospectus	5,555.56
749,444,444	Shares to be issued pursuant to the Capitalisation Issue	7,494,444.44
250,000,000	Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option and any Shares which may be issued pursuant to exercise of the options which have been or may be granted under the Share Option Scheme)	2,500,000.00
<hr/>		<hr/>
<i>Total</i>		
<u>1,000,000,000</u>	Shares	<u>10,000,000.00</u>

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Global Offering is made.

The above table does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate given to our Directors to allot and issue or repurchase Shares pursuant to the Repurchase Mandate as described below.

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## SHARE CAPITAL

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### RANKING

The Offer Shares and the Shares that may be issued pursuant to exercise of the Over-allotment Option will be ordinary shares and will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions thereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

### PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) and (b) of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total number of issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares and must have an expected market capitalisation at the time of listing of not less than HK\$50 million.

Based on the information in the table above, our Company will meet the public float requirement under the Listing Rules after the completion of the Capitalisation Issue and the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 18 October 2019. Under the Share Option Scheme, the eligible participants of the scheme, including Directors, full-time employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. For further details of the rules of the Share Option Scheme, please see "Statutory and general information — Other information — 1. Share Option Scheme" in Appendix IV to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate number of such Shares not exceeding the aggregate of (a) 20% of the number of issued Shares as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the Over-allotment Option); and (b) the number of such Shares which may be repurchased by our Company under the Repurchase Mandate (the "Issuing Mandate").

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## SHARE CAPITAL

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Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements. The aggregate number of Shares which our Directors are authorised to allot and issue under the Issuing Mandate will not be reduced by the allotment and issue of such Shares.

The Issuing Mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

For further details of this general mandate, please see "Statutory and general information — Further information about our Company — 3. Resolutions in writing of our Shareholders passed on 18 October 2019" in Appendix IV to this prospectus.

### REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares not exceeding 10% of the aggregate number of issued Shares, as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) (the "**Repurchase Mandate**").

The Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in "Statutory and general information — Further information about our Company — 6. Securities repurchase mandate" in Appendix IV to this prospectus.

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## SHARE CAPITAL

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The Repurchase Mandate will expire:

- (i) at the conclusion of our Company's next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

For further information about the Repurchase Mandate, please see "Statutory and general information — Further information about our Company — 3. Resolutions in writing of our Shareholders passed on 18 October 2019" in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which carries the same rights as the other shares.

As a matter of the Cayman Islands Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles of Association, a summary of which is set out in "Summary of the constitution of the Company and the Cayman Islands Companies Law" in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our Group's financial position and results of operations together with our consolidated financial information during the Track Record Period and the accompanying notes included in the Accountants' Report. The Accountants' Report has been prepared in accordance with HKFRS. Prospective investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risk and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk factors" in this prospectus.*

### OVERVIEW

We are an ODM mobile phone supplier based in the PRC, primarily engaged in R&D, designing, manufacturing and sale of mobile phones, PCBAs for mobile phones and IoT related products, targeting emerging markets. According to the CIC Report, we ranked 5th amongst all ODM mobile phone suppliers in the PRC with 3.3% market share in terms of unit shipments in 2018.

We primarily offer smartphones, feature phones and PCBAs for mobile phones. As an experienced smart mobile communication device designer and developer, we also develop our capability to offer IoT related products, such as PCBAs or IoT modules for smart locks and automatic electricity meter readers, and other cloud related services which started to generate revenue in FY2017. Revenue generated from the sales of mobile phones accounted for 61.8%, 77.4%, 90.3% and 92.9% of our total revenue for FY2016, FY2017, FY2018 and 4M2019, respectively.

Our products are sold to more than 15 countries worldwide with strategic focus on India and other emerging markets which have high population and growing demands on mobile phones. Revenue generated from India accounted for 48.0%, 52.6%, 59.3% and 28.3% of our total revenue for FY2016, FY2017, FY2018 and 4M2019, respectively. Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in India, Thailand, China, other Asian countries and other parts of the world.

For FY2016, FY2017, FY2018 and 4M2019, our total revenue was RMB2,171.9 million, RMB2,889.7 million, RMB2,943.7 million and RMB744.3 million, respectively, and our profit for the year/period was RMB42.7 million, RMB32.1 million, RMB44.0 million and RMB14.0 million, respectively.

### BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law on 15 August 2018 and became the holding company of the companies now comprising the Group on 10 September 2018. Details of which are set out in the section headed "History, Development and Reorganisation" in this prospectus.



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## FINANCIAL INFORMATION

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The financial information of our Group has been prepared by our Directors based on accounting policies which conform with HKFRS issued by the HKICPA, on the basis of presentation and preparation as set out in note 2 to the Accountants' Report set out in Appendix I to this prospectus.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be affected by a number of factors, many of which may be beyond our control, including the following:

#### **Technological change**

The mobile phone industry is rapidly changing with new technological innovations and new product introductions. Our future growth depends upon our ability to develop and provide new and improved products in line with technological advancements which meet the ending requirements of our customers, and our ability to bring these products to the market in a timely manner. In order to maintain our business growth, we have to constantly launch new mobile phones with innovative designs and features. For FY2016, FY2017, FY2018 and 4M2019, our R&D expenses amounted to RMB78.8 million, RMB102.8 million, RMB105.4 million and RMB25.7 million, respectively. We will continue to devote significant amount of resources on R&D to keep up with the rapid technological change. There is no assurance that any R&D efforts undertaken or to be undertaken by us would result in the successful development of any new or improved products or that any such new or improved products will meet market requirements and achieve market acceptance. If we fail to develop new mobile phones that can satisfy the market needs, and/or we are unable to launch our products in time, our business performance and growth will be adversely affected.

#### **Market conditions in India**

We derive a substantial portion of our revenue in India. During the Track Record Period, our revenue generated from India accounted for 48.0%, 52.6%, 59.3% and 28.3% of our total revenue, respectively. According to the CIC Report, India was the world's largest feature phone market and third largest smartphone market in 2018 in terms of unit shipments. Sales value of mobile phones in India grew at a CAGR of 13.2% from 2014 to 2018. It is estimated that the sales value of mobile phones in India will further grow at a CAGR of 11.6% from 2018 to 2023. In particular, sales value of smartphones in India is expected to increase from USD20.1 billion in 2018 to USD38.6 billion in 2023, representing a CAGR of 14.0%. The rapid growth of the mobile phone market in India has been mainly driven by (i) the huge population of India; and (ii) the Indian consumers' continuous pursuit of a better quality of life along with their increasing disposable income and they will gradually switch from feature phones to smartphones. If any of these factors changes unexpectedly or unfavorably, our business, financial condition and results of operations may be adversely affected.

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## FINANCIAL INFORMATION

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### **Demand for our products**

Our major customers are various top local branded mobile phone suppliers, telecommunication operators and trading companies. We expect that our future sales will continue to depend on the demand from our customers, which is in turn affected by many factors, including but not limited to consumer preference and market acceptance of their products, as well as the consumer spending power and sentiments in markets where our customers operate, all of which are beyond our control. In the event that there are unexpected changes in the aforesaid factors, our business, financial condition and results of our operations may be adversely affected.

### **Production capacity and product range**

Growth in our revenue and market share depends to a large extent on our ability to manage and expand our production capacity. As of 30 April 2019, we operated ten mobile phone assembly lines in our Shenzhen Plant and four SMT lines in our Luzhou Plant in China. During the Track Record Period, we maintained high utilisation rate at our Shenzhen Plant and Luzhou Plant. For FY2016, FY2017, FY2018 and 4M2019, the utilisation rate of our mobile phone assembly lines in our Shenzhen Plant was 70.7%, 96.0%, 105.0% and 94.0%, respectively. For FY2018 and 4M2019, the utilisation rate of our SMT lines in our Luzhou Plant was 106.3% and 115.2%, respectively.

In order to meet growing customer demands for our products, we will continue to increase our production capacity and output through the acquisition of production lines and expansion of our workforce. We will continue to expand our production capacity to explore and capture growth opportunities and expand our market share. For details of our future expansion plan, please see “Future plans and use of proceeds”. If we are unable to further expand our production capacity, we may fail to satisfy the increasing orders from our customers and lose our competitiveness in the market, which could materially and adversely affect our financial condition and results of operations, as well as the growth of our revenue and profits.

### **Cost of raw materials and components**

Major raw materials and components used for the production of our products included PCBAs, display modules, camera modules and mobile chips. Cost of raw materials and components is the largest component of our cost of sales, accounting for 94.3%, 94.1%, 94.1% and 96.5% of our total cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively.

The prices of these raw materials and components are typically subject to volatility caused by external conditions such as market supply and demand. Any unexpected increases in market prices of our major raw materials and components may have a material and adverse effect on our business, results of operations and financial condition if we are unable to transfer the increased purchase costs to our customers.

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## FINANCIAL INFORMATION

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For demonstration purpose, the following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of raw materials and components on our cost of sales and gross profit during the Track Record Period. Fluctuations in our cost of raw materials and components are assumed to be 5% and 10% for the periods indicated.

RMB'000, except percentages

<b>Hypothetical fluctuation in cost of raw materials and components</b>	<b>-10.0%</b>	<b>-5.0%</b>	<b>+ 5.0%</b>	<b>+ 10.0%</b>
<i>Impact on consolidated statement of profit or loss items for FY2016</i>				
Change in cost of sales	-189,285	-94,642	+ 94,642	+ 189,285
Change in gross profit	+ 189,285	+ 94,642	-94,642	-189,285
<i>Impact on consolidated statement of profit or loss items for FY2017</i>				
Change in cost of sales	-249,300	-124,650	+ 124,650	+ 249,300
Change in gross profit	+ 249,300	+ 124,650	-124,650	-249,300
<i>Impact on consolidated statement of profit or loss items for FY2018</i>				
Change in cost of sales	-252,051	-126,025	+ 126,025	+ 252,051
Change in gross profit	+ 252,051	+ 126,025	-126,025	-252,051
<i>Impact on consolidated statement of profit or loss items for 4M2018</i>				
Change in cost of sales	-57,789	-28,895	+ 28,895	+ 57,789
Change in gross profit	+ 57,789	+ 28,895	-28,895	-57,789
<i>Impact on consolidated statement of profit or loss items for 4M2019</i>				
Change in cost of sales	-65,231	-32,615	+ 32,615	+ 65,231
Change in gross profit	+ 65,231	+ 32,615	-32,615	-65,231

### Fluctuations in foreign currency exchange rates

We principally operate our business in the PRC and a majority of our production costs are denominated in RMB. On the other hand, a majority of our total revenue was derived from the export sales to foreign countries during the Track Record Period. Our revenue, trade receivables and bank balances in respect of these export sales were denominated in USD. Accordingly, we are exposed to foreign exchange rate risk. We currently do not have a foreign currency hedging policy. However, our management closely monitors our foreign exchange exposure and will consider hedging such exposure should the need arise.

If USD significantly depreciates against RMB, our result will be adversely affected. Such foreign exchange rate fluctuations may also affect the price competitiveness of our exports from our customers' perspectives and we cannot assure you that our customers will not switch to cheaper alternatives or suppliers. For details of our Group's foreign currency risk exposure, please see note 38 to the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### Market competition

According to the CIC Report, the China mobile phone ODM market was relatively concentrated. Top 10 market players accounted for an aggregate market share of 58.3%, in terms of mobile phone unit shipments in 2018. Our Group, with a market share of 3.3%, ranked 5th amongst all China's mobile phone ODM in 2018. Our Directors consider that our Group is able to compete in terms of customer base, cost control, research and development and quality of our products. If our Group fails to maintain our competitive strengths or the competition in the China mobile phone ODM industry is intensified unexpectedly, our operation and financial results will be adversely affected.

### Taxation

We enjoyed various preferential tax treatments during the Track Record Period. As a result of our R&D capabilities, initiatives and achievements, Shenzhen Sprocomm, one of our principal operating subsidiaries, was granted the status of “High and New Technology Enterprise\* (高新技術企業)” by the relevant PRC governmental authorities in July 2014, and such status has been renewed and extended for three years in October 2017. Therefore, it is entitled to a preferential EIT rate of 15% on its assessable profit until 2019, according to the applicable PRC laws and regulations. Under the relevant PRC laws and regulations, the 15% preferential EIT rate is subject to review and approval by the tax authorities. Further, Shanghai Sprocomm, our another subsidiary, was accredited as software enterprise\* (軟件企業) under the relevant PRC laws and regulations in December 2015. Accordingly, Shanghai Sprocomm was exempt from EIT for two years, between 2016 and 2017, followed by a 50% reduction in the EIT rate of 25% for the next three years, between 2018 and 2020. As a result of aforesaid preferential tax treatment, Shanghai Sprocomm enjoyed tax savings of RMB3.7 million, RMB2.4 million, RMB0.7 million and RMB2.3 million for FY2016, FY2017, FY2018 and 4M2019, respectively. In addition, Shenzhen Sprocomm and Shanghai Sprocomm were entitled to an additional 50% of tax deduction for certain qualified research and development costs that did not constitute intangible assets when calculating our taxable income in 2016 and 2017, pursuant to the EIT Law and its relevant regulations. Starting from 1 January 2018, the aforesaid additional tax deductions related to qualified research and development costs were increased from 50% to 75%. For FY2016, FY2017, FY2018 and 4M2019, our Group were entitled to additional tax deductions of RMB4.7 million, RMB7.1 million, RMB11.2 million and RMB3.8 million for qualified research and development costs, respectively. If we cannot continue to enjoy such preferential treatment upon the expiry of the existing preferential tax treatments, our profitability and financial performance will be negatively affected.

### Government subsidies

During the Track Record Period, we have received government subsidies for (i) our continuous commitment to increase our production volume and enhance our R&D capability; and (ii) financing the purchase of plant and machinery, leasehold improvement and recruitment of workers. For FY2016, FY2017, FY2018 and 4M2019, our government subsidies and amortisation of government subsidies recognised as other gains and income were RMB7.0 million, RMB9.1 million, RMB21.6 million and RMB10.4 million, respectively. Our eligibility for government subsidies is dependent on

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## FINANCIAL INFORMATION

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a variety of factors, including relevant government policies, the availability of funding at different granting authorities, the granting authorities' assessments on our R&D capability and the completing inspection of relevant assets by the related granting authorities. There can be no assurances that we will continue to receive similar levels of government subsidies, or at all. If we no longer receive government subsidies or the amount of government subsidies we receive decreases significantly, results of our operations may be adversely affected.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The financial information of our Group has been prepared in accordance with HKFRSs issued by the HKICPA. The significant accounting policies adopted by our Group are set forth in detail in note 4 to the Accountants' Report set out in Appendix I to this prospectus.

Some of the accounting policies involve judgements, estimates and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the key judgements, estimates and assumptions made in applying our accounting policies are set forth in note 5 to the Accountants' Report set out in Appendix I to this prospectus.

Set forth below are the most critical accounting policies, judgements and estimates used in the preparation of our financial statements:

#### **Revenue recognition**

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Specifically, we use a five-step approach to recognise revenue: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognise revenue when (or as) the entity satisfies a performance obligation.

We recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to customers. Control is transferred over time and revenue is recognised over time if: (i) the customer simultaneously receives and consumes the benefits provided by our performance as we perform; (ii) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (iii) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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We primarily generate revenue from sales of mobile phones, PCBAs and IoT related products. Our revenue is recognised when control of our products has been transferred to customers. Control of the product is considered transferred to the customer generally on delivery of goods to the customers' specified location and when customer acceptance has been obtained which is the point of time the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

### **Leasing (accounting policy applicable before 1 January 2019)**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

### **Leasing (accounting policy applicable on or after 1 January 2019)**

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At the date of initial application of HKFRS 16 on 1 January 2019, our Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability represents the fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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### **Contract liabilities**

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities represented deposits received from our customers. We normally received range from 5% to 30% of the contract value as deposit from customers when they signed the sale and purchase agreement for sales of products. For certain IoT related products orders from customer, we received 80% of the contract value as upfront deposit when they signed the sale agreement. These deposits are recognised as contract liabilities until the goods have been to our customers.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **Government subsidies**

Government subsidies are not recognised until there is reasonable assurance that we will comply with the conditions attaching to them and that the subsidies will be received.

Government subsidies are recognised in profit or loss on a systematic basis over the periods in which we recognise as expenses the related costs for which the subsidies are intended to compensate. Specifically, government subsidies whose primary condition is that we should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future related costs are recognised in profit or loss in the period in which they become receivable.

### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.



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Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvement	20% or over lease term whichever is shorter
Plant and machinery	10%–33%
Furniture and fixture	33%
Motor vehicles	20%
Office equipment	33%
Land and buildings	5% or over the lease term whichever is shorter

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Impairment of financial assets**

We recognise a loss allowance for expected credit losses (the “ECL”) on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, amount due from a related company, amount due from non-controlling shareholder of a subsidiary, amount due from a shareholder, other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

We apply the simplified approach to provide for ECL prescribed by HKFRS 9 for trade and bills receivables. For all other instruments, we measure the loss allowance equal to 12-month ECL (the “12m ECL”), unless there has been a significant increase in credit risk since initial recognition, in which case we recognise lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

### ***Significant increase in credit risk***

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, we compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, we consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which our debtors operate.

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In particular, when assessing whether credit risk has increased significantly since initial recognition, we consider: (i) an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating; (ii) significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; (iii) existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; (iv) an actual or expected significant deterioration in the operating results of the debtor; (v) significant increases in credit risk on other financial instruments of the same debtor; and (vi) an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, we presume that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless we have reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, we assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (i) the financial instrument has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. We consider a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

We regularly monitor the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

### **Write-off policy**

We write off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 24 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under our recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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### Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis: (i) nature of financial instruments; and (ii) past-due status. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If we have measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, we measure the loss allowance at an amount equal to 12m ECL at the current reporting date except for assets for which simplified approach was used.

We recognise an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

### IMPACT OF ADOPTION OF NEW AND AMENDMENTS TO CERTAIN ACCOUNTING POLICIES

Our Group has consistently adopted all the HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“**HKASs**”), amendments and interpretations (“**Int(s)**”) issued by the HKICPA which are effective for our Group’s financial year beginning on 1 January 2019, including HKFRS 15 “Revenue from Contracts with Customers” (“**HKFRS 15**”), throughout the Track Record Period, except that the Group (i) adopted HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) on 1 January 2018 and adopted HKAS 39 “Financial Instruments — Recognition and Measurement” (“**HKAS 39**”) during the years ended 31 December 2016 and 2017; and (ii) adopted HKAS 17 “Leases” (“**HKAS 17**”) during the years ended 31 December 2016, 2017 and 2018 and adopted HKFRS 16 on 1 January 2019.

#### HKFRS 9

Our Group has applied HKFRS 9 for the first time commencing 1 January 2018. HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments — Disclosures. The accounting policies were changed to comply with HKFRS 9.

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At the initial application of HKFRS 9, our Directors reviewed and assessed our Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to be measured as same bases as are measured under HKAS 39.

The adoption of HKFRS 9 has changed our Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL model. As at 1 January 2018, our Directors reviewed and assessed our Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

The table below illustrates financial statements items impacted by initial application of HKFRS 9 in respect of the expected credit losses of trade and bills receivables under HKFRS 9 and HKAS 39 at the date of initial application, i.e. 1 January 2018.

	<b>Trade and bills receivables</b>	<b>Deferred tax asset</b>	<b>Retained profits</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Closing balance at 31 December 2017	244,668	1,453	52,988
Effect arising from initial application of HKFRS 9:			
Remeasurement			
— Impairment under ECL model	<u>(275)</u>	<u>69</u>	<u>(206)</u>
Opening balance at 1 January 2018	<u>244,393</u>	<u>1,522</u>	<u>52,782</u>

Please see note 3 to the Accountants' Report set out in Appendix I to this prospectus for more details. Taking into account the effects of adoption of HKFRS 9 disclosed above, we concluded that there was no significant impact on our financial position and performance as compared to reporting under HKAS 39.

### HKFRS 15

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue ("HKAS 18") and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. Our Group has elected to early apply HKFRS 15, which has been applied consistently in the Track Record Period.

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Under HKFRS 15, we recognise performance obligations that we have not yet satisfied but for which we have received consideration as contract liabilities. Contract liabilities of RMB43.7 million, RMB7.4 million, RMB109.1 million and RMB32.0 million as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively, would have been presented as receipts in advance if HKAS 18 had been applied throughout the Track Record Period. We have assessed the effects of early adoption of HKFRS 15 on our financial statements disclosed above and have concluded that there has been no significant impact on our Group's financial position and performance as compared to the requirements of HKAS 18.

### HKFRS 16

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. We have applied HKFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2016, 2017 and 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, the historical financial information as at and for the years ended 31 December 2016, 2017 and 2018 were prepared under HKAS 17 Leases.

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

On adoption of HKFRS 16, we recognised lease liabilities of approximately RMB16.7 million in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

We recognised right-of-use assets and measures them an amount equal to the lease liability. On transition to HKFRS 16 on 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately RMB16.7 million.

By applying HKFRS 16, there are increases in both total assets and total liabilities of the Group comparing to that under HKAS 17, and other than this, there is no significant impact on our financial position and performance.

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### MANAGEMENT DISCUSSION AND ANALYSIS

#### Summary of results of operations

The following table sets out a summary of the results of our Group for the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	FY2016 RMB'000	FY2017 RMB'000	FY2018 RMB'000	4M2018 RMB'000 (unaudited)	4M2019 RMB'000
Revenue	2,171,867	2,889,658	2,943,724	665,684	744,303
Cost of sales	<u>(2,006,230)</u>	<u>(2,648,995)</u>	<u>(2,680,527)</u>	<u>(606,339)</u>	<u>(676,304)</u>
<b>Gross profit</b>	165,637	240,663	263,197	59,345	67,999
Other gains and income	13,087	10,151	27,792	5,480	15,982
Selling expenses	(21,639)	(49,688)	(50,351)	(9,908)	(11,007)
Administrative and other expenses	(32,433)	(58,766)	(64,700)	(17,167)	(24,627)
Research and development expenses	(78,801)	(102,757)	(105,396)	(22,229)	(25,725)
Finance costs	<u>(1,400)</u>	<u>(7,459)</u>	<u>(15,884)</u>	<u>(3,000)</u>	<u>(5,100)</u>
<b>Profit before tax</b>	44,451	32,144	54,658	12,521	17,522
Income tax expenses	<u>(1,756)</u>	<u>(65)</u>	<u>(10,707)</u>	<u>(1,414)</u>	<u>(3,485)</u>
<b>Profit for the year/period</b>	<u>42,695</u>	<u>32,079</u>	<u>43,951</u>	<u>11,107</u>	<u>14,037</u>
Other comprehensive income (expenses) for the year/period: <i>Items that may be reclassified subsequently to profit or loss</i>					
Exchange difference arising on translating foreign operations	<u>4,198</u>	<u>(11,402)</u>	<u>(1,032)</u>	<u>162</u>	<u>433</u>
Total comprehensive income for the year/period	<u><u>46,893</u></u>	<u><u>20,677</u></u>	<u><u>42,919</u></u>	<u><u>11,269</u></u>	<u><u>14,470</u></u>

#### Non-HKFRS measures

<b>Adjusted profit for the year/period</b>	<b>FY2016</b> RMB'000	<b>FY2017</b> RMB'000	<b>FY2018</b> RMB'000	<b>4M2019</b> RMB'000
Profit for the year/period	42,695	32,079	43,951	14,037
Listing expenses	<u>—</u>	<u>—</u>	<u>5,899</u>	<u>7,176</u>
<b>Adjusted profit for the year/period</b> <i>(Note)</i>	<u><u>42,695</u></u>	<u><u>32,079</u></u>	<u><u>49,850</u></u>	<u><u>21,213</u></u>

*Note:* Adjusted profit refers to profit excluding listing expenses which is a non-HKFRS measure, to supplement our consolidated financial information which are presented in accordance with HKFRS. We believe that this non-HKFRS measure provides additional information to investors and others in understanding and evaluating our results of operations in comparing financial results of our operations across accounting periods and to those of our peer companies.

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### Revenue

For FY2016, FY2017, FY2018 and 4M2019, our total revenue was RMB2,171.9 million, RMB2,889.7 million, RMB2,943.7 million and RMB744.3 million, respectively.

### *Revenue by geographical regions*

We sell our products to more than 15 countries world wide with strategic focus on India and other emerging markets which have high population and growing demands on mobile phones. Our customers include various top local branded mobile phone suppliers, telecommunication operators and trading companies in our target geographical locations.

The following table sets forth a breakdown of our revenue by geographical regions based on shipment destinations and the revenue generated from each region as a percentage of our revenue during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>Emerging Asia</b>										
India	1,041,746	48.0	1,519,280	52.6	1,744,915	59.3	446,932	67.1	210,566	28.3
Thailand	663,621	30.6	409,545	14.2	62,796	2.1	3,531	0.5	—	—
Pakistan	111,823	5.1	201,342	7.0	188,752	6.4	58,957	8.9	37,423	5.0
Bangladesh	111,682	5.1	156,691	5.4	192,900	6.6	48,201	7.2	25,308	3.4
The PRC	110,520	5.1	309,727	10.7	388,606	13.2	49,137	7.4	289,259	38.9
Vietnam	10,803	0.5	5,630	0.2	—	—	—	—	—	—
Sub-total:	2,050,195	94.4	2,602,215	90.1	2,577,969	87.6	606,758	91.1	562,556	75.6
<b>Other regions</b>										
Algeria	—	—	3,604	0.1	210,280	7.1	2,843	0.4	156,309	21.0
Dubai	21,670	1.0	70,467	2.4	—	—	—	—	586	0.1
Russia and Ukraine	23,486	1.1	51,738	1.8	86,102	2.9	28,943	4.4	—	—
Others (Note)	76,516	3.5	161,634	5.6	69,373	2.4	27,140	4.1	24,852	3.3
Sub-total:	121,672	5.6	287,443	9.9	365,755	12.4	58,926	8.9	181,747	24.4
<b>Total</b>	<b>2,171,867</b>	<b>100.0</b>	<b>2,889,658</b>	<b>100.0</b>	<b>2,943,724</b>	<b>100.0</b>	<b>665,684</b>	<b>100.0</b>	<b>744,303</b>	<b>100.0</b>

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

### *India*

We derived a significant amount of revenue from India during the Track Record Period. Our revenue from India is mainly contributed by LAVA Group and Micromax Group, two major mobile phone brand owners and suppliers in India during the Track Record Period. According to the CIC Report, the mobile phone market in India is highly concentrated, with the leading six feature phone brands took up 73.5% of the total feature phone sales value, and the leading six smartphone brands



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accounting for 77.4% of the total smartphone sales value in 2018. In terms of feature phone sales value in 2018, our two major Indian customers had market shares of 3.0% and 4.0% respectively in the India's feature phone market.

Our revenue generated from India increased from RMB1,041.7 million for FY2016 to RMB1,744.9 million for FY2018, representing a CAGR of 29.4%. Our Directors believe that the increase in our sales to India was primarily attributed to (i) the leading market positions of our major Indian customers; (ii) India is the world's largest feature phone market and the third largest smartphone market in terms of unit shipments in 2018, supported by its huge population and increasing consumers' disposable income; (iii) the increasing penetration of mobile phones in India. The penetration rate of mobile phone in India increased from 71.9 units per hundred people in 2014 to 93.8 units per hundred people in 2018; and (iv) the consumers in India are gradually switching from feature phones to smartphones, due to the increasing disposable income and the launch of low-cost smartphones into the India's mobile phone market.

According to the CIC Report, India's sales value of smartphones increased at a CAGR of 16.3% from USD11.0 billion in 2014 to USD20.1 billion in 2018, and it is expected to further increase at a CAGR of 14.0% from USD20.1 billion in 2018 to USD38.6 billion in 2023. The penetration rate of smartphones in India increased from 6.8 units per hundred people in 2014 to 42.3 units per hundred people in 2018, and is expected to further increase to 66.7 units per hundred people in 2023.

Our two largest customers in India are local mobile phone brands. The proportion of our revenue contribution from India declined for 4M2019 because the competitive landscape in India was becoming more challenging. According to the CIC report, the low smartphone penetration rate in India has been attracting many brands to expand their businesses in India. For example, Xiaomi built its own factory in India and OPPO and VIVO saw remarkable expansion in the offline market by celebrity endorsements and competition sponsorships. Therefore, the market share of the local Indian mobile phone brands has been eroded by the Chinese brands. To reduce over reliance on India, we diversify our customer base and geographical coverage in other countries, such as North Africa and China. We successfully implemented our sales diversification strategy and we recorded a significant increase in revenue from Algeria and the PRC for 4M2019 as compared with 4M2018.

### *Thailand*

Our revenue generated from Thailand amounted to RMB663.6 million, RMB409.5 million, RMB62.8 million and nil for FY2016, FY2017, FY2018 and 4M2019, respectively, and accounting for 30.6%, 14.2%, 2.1% and nil of our total revenue for the respective period.

Our revenue generated from Thailand during the Track Record Period was mainly contributed by our sales of 3G mobile phones to Vivatel. Vivatel sold our products onward to a leading Thailand telecommunication company, which is listed on the Stock Exchange of Thailand and mainly engaged in the telecommunication business with 4.5G/4G, 3G and 2G network coverage.

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Our revenue generated from Thailand decreased during the Track Record Period, which was primarily due to the decrease in purchase orders on 3G mobile phones placed by Vivatel. This was mainly because the decreased demands on 3G mobile phones from the aforementioned leading Thailand telecommunication company as a result of its business strategy to expand 4G network services in Thailand and to promote its 4G mobile phones and data package.

### *Pakistan*

Our revenue generated from Pakistan was primarily derived from the sales to Digicom QMobile, an importer and exporter of mobile phones and accessories under its own brand “QMobile”, which had a market share of 3.3% in Pakistan’s smartphone market in terms of sales value and ranked 5th in 2018, according to the CIC Report. Our revenue generated from Pakistan amounted to RMB111.8 million, RMB201.3 million, RMB188.8 million and RMB37.4 million for FY2016, FY2017, FY2018 and 4M2019, respectively, and accounting for 5.1%, 7.0%, 6.4% and 5.0% of our total revenue for the respective period.

### *Bangladesh*

Our revenue generated from Bangladesh was primarily derived from the sales to Edison Group, a major local branded mobile phone supplier under the brand “SYMPHONY”, which had a market share of 20.4% in Bangladesh’s smartphone market in terms of sales value and ranked 1st in 2018, according to the CIC Report. Our revenue generated from Bangladesh amounted to RMB111.7 million, RMB156.7 million, RMB192.9 million and RMB25.3 million for FY2016, FY2017, FY2018 and 4M2019, respectively, and accounting for 5.1%, 5.4%, 6.6% and 3.4% of our total revenue for the respective period.

### *The PRC*

Our revenue generated from the PRC amounted to RMB110.5 million, RMB309.7 million, RMB388.6 million and RMB289.3 million for FY2016, FY2017, FY2018 and 4M2019, respectively, and accounting for 5.1%, 10.7%, 13.2% and 38.9% of our total revenue for the respective period. We generally provide mobile phones, PCBAs for mobile phones and IoT related products to our customers in the PRC. The significant increase of revenue generated from the PRC in FY2017 was primarily due to an IoT related project with a leading shared bicycle company in the PRC, in which we researched, designed, manufactured and sold smart lock PCBAs for shared bicycles. For 4M2019, the proportion of our revenue contribution significantly increased and our significant growth of PRC sales was attributed to the increase in sales orders for smartphones from new and existing customers. Our major PRC customers are renowned networking device providers, please see “Business — Sales and our customers — Our customers” for further details.

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### *Algeria*

Our revenue generated from Algeria amounted to nil, RMB3.6 million, RMB210.3 million and RMB156.3 million for FY2016, FY2017, FY2018 and 4M2019, respectively, accounting for nil, 0.1%, 7.1% and 21.0% of our total revenue for the respective period. We have recorded a significant increase in our revenue generated from Algeria since FY2018, which was primarily due to our continuous efforts to broaden customer base in African market. In FY2018, we expanded our sales to North Africa. One of our top five largest customers for FY2018 and 4M2019, who purchased smartphones from us and is primarily engaged in the manufacture and trading of various electronic products under its own brand “Condor” in Algeria, contributed revenue of RMB178.1 million and RMB142.2 million, accounting for 6.0% and 19.1% of our total revenue for FY2018 and 4M2019, respectively.

### *Russia and Ukraine*

Our revenue generated from Russia and Ukraine amounted to RMB23.5 million, RMB51.7 million, RMB86.1 million and nil for FY2016, FY2017, FY2018 and 4M2019, respectively, and accounting for 1.1%, 1.8%, 2.9% and nil of our total revenue for the respective period. Upon Listing, our Group would cease our sales to sanctioned countries.

### *Revenue by product categories*

We primarily derive our revenue from the sales of (i) mobile phones; (ii) PCBAs; and (iii) IoT related products. Mobile phones is our major product type. For FY2016, FY2017, FY2018 and 4M2019, revenue generated from the sales of mobile phones amounted to RMB1,343.6 million, RMB2,235.8 million, RMB2,657.8 million and RMB691.7 million, accounting for 61.8%, 77.4%, 90.3% and 92.9% of our total revenue, respectively.

The following table sets forth a breakdown of our revenue by product categories and the revenue generated from each product category as a percentage of our revenue during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
							(unaudited)			
Mobile phones										
Smartphones	584,722	26.9	1,559,760	54.0	2,073,294	70.4	457,943	68.8	556,264	74.7
Feature phones	758,899	34.9	676,009	23.4	584,482	19.9	181,652	27.3	135,463	18.2
Sub-total:	1,343,621	61.8	2,235,769	77.4	2,657,776	90.3	639,595	96.1	691,727	92.9
PCBAs	748,658	34.5	428,654	14.8	148,895	5.1	—	—	4,886	0.7
IoT related products	—	—	140,443	4.9	66,045	2.2	5,772	0.9	18,799	2.5
Others (Note)	79,588	3.7	84,792	2.9	71,008	2.4	20,317	3.0	28,891	3.9
Total	2,171,867	100.0	2,889,658	100.0	2,943,724	100.0	665,684	100.0	744,303	100.0

*Note:* Others mainly include revenue from the sales of mobile device components used for after sales-services and the provision of R&D and technical services for mobile phones, PCBAs and cloud related products.

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### *Mobile phones*

We mainly sell smartphones and feature phones to our customers. At the request of our customers, we also offer them component pack of mobile phones (semi knock-down (SKDs) for mobile phones which include hardware components such as PCBAs, display modules, camera modules etc.) that are ready to be assembled and packaged by our customers after being imported to their country(ies); and mobile device components (such as batteries and display modules) to enable our customers to provide mobile phone repair and maintenance services to the end users.

Our revenue generated from the sales of mobile phones for FY2016, FY2017, FY2018 and 4M2019 amounted to RMB1,343.6 million, RMB2,235.8 million, RMB2,657.8 million and RMB691.7 million, respectively. Our revenue was mainly contributed by sales of mobile phones to Emerging Asia. Consumers of Emerging Asia are pursuing better quality of life and they gradually switch from feature phones to smartphones. Accordingly, the percentage of revenue generated from the sales of smartphones to our total revenue increased from 26.9% for FY2016 to 74.7% for 4M2019.

### *PCBAs*

Our PCBAs are sold as stand-alone products to our customers, which are further applied for the production of mobile phones. During the Track Record Period, our revenue generated from the sales of PCBAs accounted for RMB748.7 million, RMB428.7 million, RMB148.9 million and RMB4.9 million, accounting for 34.5%, 14.8%, 5.1% and 0.7% of our total revenue, respectively.

We made a change to our product mix by increasing the proportion of mobile phones sales since 2016 because our Directors are of the view that we can create higher value for our customers and increase our market share by supplying a complete mobile phone to our customers, instead of just a single component. This saves their time and costs incurred to source other components and manufacturers to assemble the mobile phones for them. To fulfil increasing orders for our mobile phones, we also reallocated more production capacity of PCBAs to serve our internal productions needs. Accordingly, revenue contribution from the sales of PCBAs was on a decreasing trend during the Track Record Period.

### *IoT related products*

During the Track Record Period, our revenue generated from the sales of IoT related products accounted for nil, RMB140.4 million, RMB66.0 million and RMB18.8 million, accounting for nil, 4.9%, 2.2% and 2.5% of our total revenue, respectively. The increase in revenue in FY2017 was primarily attributed to the sales of smart lock PCBAs for shared bicycles to a leading shared bicycles services provider in the PRC.

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### *Sales volume and ASP*

We price our products on cost-plus basis as well as considering product model, market price, market condition, production cost and our relationship with the customers. The following table sets forth the sales volume and ASP by our product categories for the periods indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Sales		Sales		Sales		Sales		Sales	
	volume	ASP	volume	ASP	volume	ASP	volume	ASP	volume	ASP
	'000 units	RMB	'000 units	RMB	'000 units	RMB	'000 units	RMB	'000 units	RMB
Mobile phones										
Smartphones	2,780	210	5,955	262	7,134	291	1,463	313	1,733	321
Feature phones	8,380	91	10,736	63	12,977	45	4,098	44	3,451	39
PCBAs	7,009	107	4,054	106	1,481	101	—	—	45	109
IoT related products	—	—	4,312	33	2,893	23	86	67	745	25

The ASP of our smartphones increased from RMB210 for FY2016 to RMB262 for FY2017 and further increased to RMB291 for FY2018 and further increased to RMB321 for 4M2019, which was mainly attributed to the increase in sales of 4G smartphones and the selling price of 4G smartphone was higher than that of 3G smartphone.

The ASP of our feature phones for FY2016, FY2017, FY2018 and 4M2019 amounted to RMB91, RMB63, RMB45 and RMB39, respectively. The decreasing ASP of our feature phones during the Track Record Period was attributed to the fact that the end-consumers are gradually replacing feature phones with smartphones.

The ASP of our PCBAs for FY2016, FY2017, FY2018 and 4M2019 remained relatively stable at RMB107, RMB106, RMB101 and RMB109, respectively.

The following table sets forth the revenue, sales volume and ASP of mobile phones by mobile communication standards during the Track Record Period:

	FY2016			FY2017			FY2018			4M2018			4M2019							
	% of total revenue		Sales	% of total revenue		Sales	% of total revenue		Sales	% of total revenue		Sales	% of total revenue		Sales					
	Revenue generated	volume	ASP	Revenue generated	volume	ASP	Revenue generated	volume	ASP	Revenue generated	volume	ASP	Revenue generated	volume	ASP					
	RMB'000	'000 units	RMB	RMB'000	'000 units	RMB	RMB'000	'000 units	RMB	RMB'000	'000 units	RMB	RMB'000	'000units	RMB					
	(unaudited)																			
2G	279,314	20.8	4,412	63	520,935	23.3	9,392	55	562,294	21.2	12,772	44	166,427	26.0	3,908	43	135,463	19.6	3,451	39
3G	975,194	72.6	6,390	153	970,716	43.4	5,062	192	726,042	27.3	3,403	213	142,221	22.2	688	207	127,754	18.5	586	218
4G	89,113	6.6	358	249	744,118	33.3	2,237	333	1,369,440	51.5	3,936	348	330,948	51.8	965	343	428,510	61.9	1,147	374

*Note:* Sales of each of the 3G and 4G smartphones and 2G, 3G and 4G feature phones include both fully-assembled mobile phones and components pack sales.

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### Cost of sales

Cost of sales primarily consists of the purchase cost of raw materials and components, subcontracting costs, staff costs, utility expenses and depreciation. The following table sets forth the components of cost of sales and the cost of each component as a percentage of total cost of sales during the Track Record Period:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	RMB'000	% to cost of sales	RMB'000	% to cost of sales	RMB'000	% to cost of sales	RMB'000	% to cost of sales	RMB'000	% to cost of sales
Raw materials and components	1,892,845	94.3	2,492,997	94.1	2,520,508	94.1	577,894	95.3	652,305	96.5
Subcontracting costs	53,474	2.7	77,445	2.9	82,695	3.1	16,285	2.7	8,162	1.2
Direct labour costs	39,665	2.0	51,031	1.9	45,340	1.7	6,863	1.1	8,953	1.3
Utility expenses	19,517	0.9	26,494	1.0	27,985	1.0	4,768	0.8	5,123	0.7
Depreciation	729	0.1	1,028	0.1	3,999	0.1	529	0.1	1,761	0.3
Total	<u>2,006,230</u>	<u>100.0</u>	<u>2,648,995</u>	<u>100.0</u>	<u>2,680,527</u>	<u>100.0</u>	<u>606,339</u>	<u>100.0</u>	<u>676,304</u>	<u>100.0</u>

- Raw materials and components.** Our major raw materials and components used for the production of our products included PCBAs, display modules, camera modules and mobile chips. Cost of raw materials and components is the largest component of our cost of sales, accounting for 94.3%, 94.1%, 94.1% and 96.5% of our total cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively.
- Subcontracting costs.** Subcontracting costs were paid to our subcontractors for the production of PCBAs and the assembling of mobile phones. We subcontract these production process to our subcontractors mainly depending on our production capacity, the time it takes our subcontractors to complete the production process, the amount of subcontracting costs charged by subcontractors and the product delivery time agreed between us and our customers. For FY2016, FY2017, FY2018 and 4M2019, our subcontracting costs amounted to RMB53.5 million, RMB77.4 million, RMB82.7 million and RMB8.2 million, accounting for 2.7%, 2.9%, 3.1% and 1.2% of our total cost of sales, respectively.
- Direct labour costs.** Direct labour costs consist of wages and benefits of our employees directly engaged in production activities. For FY2016, FY2017, FY2018 and 4M2019, our direct labour costs amounted to RMB39.7 million, RMB51.0 million, RMB45.3 million and RMB9.0 million, respectively. Our direct labour costs for FY2017 were relatively higher as compared with FY2016 and FY2018, mainly attributed to the increased purchase orders of our IoT related products and we hired more production staff to cope with our customer demand.
- Utility expenses.** Utility expenses mainly consist of water and electricity costs.
- Depreciation.** Depreciation mainly consists of depreciation of property, plant and equipment and right-of-use assets used in the production process.

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### Gross profit

Our gross profit was RMB165.6 million, RMB240.7 million, RMB263.2 million and RMB68.0 million for FY2016, FY2017, FY2018 and 4M2019, respectively.

### Gross profit by product categories

The following table sets forth the gross profit and gross profit margin by product categories for the periods indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Mobile phones										
Smartphones	49,052	8.4	132,105	8.5	195,558	9.4	43,586	9.5	51,693	9.3
Feature phones	42,800	5.6	39,053	5.8	33,250	5.7	10,911	6.0	8,012	5.9
PCBAs	61,344	8.2	34,081	8.0	11,102	7.5	—	—	333	6.8
IoT related products	—	—	21,496	15.3	9,106	13.8	720	12.5	2,501	13.3
Others	12,441	15.6	13,928	16.4	14,181	20.0	4,128	20.3	5,460	18.9
Total	<u>165,637</u>	7.6	<u>240,663</u>	8.3	<u>263,197</u>	8.9	<u>59,345</u>	8.9	<u>67,999</u>	9.1

Our overall gross profit margin increased from 7.6% for FY2016 to 8.3% for FY2017, primarily attributed to the sales of IoT related product and the provision of other services, which had a higher gross profit margin than our mobile phones. Our overall gross profit margin further improved to 8.9% for FY2018 and 9.1% for 4M2019, primarily attributed to the increased portion of revenue derived from smartphones.

The gross profit margin of our smartphones for FY2016 and FY2017 remained relatively stable at 8.4% and 8.5%, respectively. The gross profit margin of our smartphones for FY2018 and 4M2019 was 9.4% and 9.3%, respectively. As compared with the corresponding period, the higher gross profit margin of our smartphones for FY2018 and 4M2019 was primarily attributed to the sales to the customer in Algeria, which demanded smartphones with higher specifications and the selling price of these smartphones were higher than that of our other product models.

During the Track Record Period, the costs of raw materials and components for the production of feature phones were decreasing in line with our selling price, and accordingly, the gross profit margin of our feature phones for FY2016, FY2017, FY2018 and 4M2019 remained relatively stable at 5.6%, 5.8%, 5.7% and 5.9%, respectively.



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### *Gross profit by geographical regions*

The following table sets forth the gross profit and gross profit margin by geographical regions for the periods indicated:

	FY2016		FY2017		FY2018		4M2018		4M2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
(unaudited)										
<b>Emerging Asia</b>										
India	81,288	7.8	125,838	8.3	151,485	8.7	41,699	9.3	14,893	7.1
Thailand	41,592	6.3	28,085	6.9	4,145	6.6	238	6.7	—	—
Pakistan	9,714	8.7	19,983	9.9	16,170	8.6	4,449	7.5	2,336	6.2
Bangladesh	6,548	5.9	6,853	4.4	9,893	5.1	3,109	6.5	1,334	5.3
The PRC	14,744	13.3	32,159	10.4	38,806	10.0	6,318	12.9	28,296	9.8
Vietnam	811	7.5	606	10.8	—	—	—	—	—	—
Sub-total:	154,697	7.5	213,524	8.2	220,499	8.6	55,813	9.2	46,859	8.3
<b>Other regions</b>										
Algeria	—	—	515	14.3	31,009	14.7	372	13.1	19,539	12.5
Dubai	2,283	10.5	6,610	9.4	—	—	—	—	38	6.5
Russia and Ukraine	2,131	9.1	3,490	6.7	4,478	5.2	1,161	4.0	—	—
Others (Note)	6,526	8.5	16,524	10.2	7,211	10.4	1,999	7.4	1,563	6.3
Sub-total:	10,940	9.0	27,139	9.4	42,698	11.7	3,532	6.0	21,140	11.6
<b>Total</b>	<u>165,637</u>	7.6	<u>240,663</u>	8.3	<u>263,197</u>	8.9	<u>59,345</u>	8.9	<u>67,999</u>	9.1

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

Our gross profit margin increased from 7.6% for FY2016 to 8.3% for FY2017, primarily attributed to the increased sales to the PRC with a relatively higher gross profit margin on the sales of IoT related products. Our gross profit margin further improved to 8.9% for FY2018 and 9.1% for 4M2019, primarily attributed to the increased sales to Algeria, which the customer demanded smartphones with higher specifications and the selling price and gross profit margin of these smartphones were higher than that of our other product models. During the Track Record Period, our gross profit margin of sales to the PRC was relatively higher because our other products and services provided which carried a higher gross profit margin were mainly sold to the PRC, especially for FY2016, our revenue from the PRC was mainly derived from the provision of R&D and technical services.

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### Other gains and income

Our other gains and income mainly comprises government subsidies and amortisation of government subsidies, net exchange gain, gain arising from change in fair value of financial assets at FVTPL, bank interest income and sundry income. Our other income amounted to RMB13.1 million, RMB10.2 million, RMB27.8 million and RMB16.0 million for FY2016, FY2017, FY2018 and 4M2019, respectively.

The table below shows the breakdown of our other gains and income during the Track Record Period:

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Government subsidies	6,978	9,104	16,778	3,397	8,200
Amortisation of government subsidies	—	—	4,866	282	2,203
Exchange gain, net	5,246	—	—	730	1,758
Gain arising from change in fair value of financial assets at FVTPL	452	810	5,342	1,040	3,111
Bank interest income	117	47	520	23	517
Sundry income	294	190	286	8	187
Gain on disposal of property, plant and equipment	—	—	—	—	6
Total	<u>13,087</u>	<u>10,151</u>	<u>27,792</u>	<u>5,480</u>	<u>15,982</u>

### Government subsidies

The government subsidies represent the one-off government subsidies that were received from the local government authorities as subsidies for our continuous commitment to increase our production volume and enhance our R&D capability. The entitlement to these government subsidies were unconditional and were therefore immediately recognised as other income in the respective year/ period.

### Amortisation of government subsidies

We also obtained government subsidies from the relevant PRC government authorities for the purposes of financing the purchase of plant and machinery, leasehold improvement and recruitment of workers. We are entitled to these government subsidies upon fulfilment of certain conditions. The government subsidies are recognised as other income to match with related expenses or on systematic

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basis over the useful lives of the relevant assets upon completing inspection by the related government authorities. For FY2016, FY2017, FY2018 and 4M2019, the amortisation of government subsidies amounted to nil, nil, RMB4.9 million and RMB2.2 million, respectively.

During the Track Record Period, the government subsidies and amortisation of government subsidies amounted to RMB7.0 million, RMB9.1 million, RMB21.6 million and RMB10.4 million, respectively. The following table sets forth the breakdown of government subsidies and amortisation of government subsidies during the Track Record Period:

Government department	Material conditions fulfilled/ to be fulfilled by our Group	Purpose of the government subsidies	FY2016	FY2017	FY2018	4M2018	4M2019	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
								(unaudited)
The Taxation Bureau of New Pudong District, Shanghai* (上海市浦東新區稅務局)	Accredited as a software enterprise* (軟件企業)	VAT refunds	3,689	523	2,483	547	—	
Science and Technology Innovation Committee of Shenzhen* (深圳市科技創新委員會)	(i) Set up R&D department; (ii) incur R&D expenses; (iii) maintain revenue higher than RMB20 million; and (iv) R&D projects should be conducted within the designated area.	Subsidise our resources devoted to strengthen our R&D capability	3,089	3,928	—	—	4,084	
Bureau of Industry and Information Technology of Shenzhen* (深圳市工業和信息化局)	(i) Conduct R&D projects with original designs focusing on core technology and technological process, functionality, integration program and the development and application of high-performance computer system; (ii) obtain more than 10 industrial design awards or granted patents; (iii) more than 20 professional designers/engineers; and (iv) chief designer of the R&D project should have more than five-year experience in product design and development.	Subsidise (i) qualified R&D project; and (ii) the expenditure on informationising our managing and operation.	—	2,960	1,856	1,356	—	
Luzhou High Technology Development Zone Management Committee* (瀘州高新技術產業開發區管理委員會)	(i) Set up Luzhou Sipukang with registered capital not less than RMB100 million and paid-up capital not less than RMB10 million; (ii) accumulated sales revenue generated including mobile phones and PCBAs, should be higher than RMB15 billion in first five years since commencement date of operation of Luzhou Plant, with revenue not less than RMB1 billion, RMB2 billion and RMB2 billion in the first three years, respectively.	Subsidise (i) capital expenditure on machineries; (ii) renovation costs; (iii) logistics costs; (iv) rental expenses; (v) recruitment of workers; and (vi) training costs	—	—	16,258	1,475	6,284	
Other PRC government departments	N/A	N/A	200	1,693	1,047	301	35	
Total of government subsidies and amortisation of government subsidies			6,978	9,104	21,644	3,679	10,403	

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### 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. For FY2016, FY2017, FY2018 and 4M2019, our selling expenses amounted to RMB21.6 million, RMB49.7 million, RMB50.4 million and RMB11.0 million, respectively.

The following table sets forth the breakdown of selling expenses incurred by us during the Track Record Period:

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Transportation and custom declaration expenses	15,931	35,040	32,494	4,739	4,935
Staff costs	3,499	7,437	8,843	2,415	2,958
Travelling and entertainment expenses	2,018	5,258	6,551	2,281	2,328
Others ( <i>Note</i> )	<u>191</u>	<u>1,953</u>	<u>2,463</u>	<u>473</u>	<u>786</u>
 Total	 <u><u>21,639</u></u>	 <u><u>49,688</u></u>	 <u><u>50,351</u></u>	 <u><u>9,908</u></u>	 <u><u>11,007</u></u>

*Note:* Others mainly include office expenses, depreciation, advertising expenses and insurance expenses.

### Administrative and other expenses

Administrative and other expenses mainly represent salaries and benefits of our administrative and management staff, depreciation, amortisation of intangible assets, general office expenses, legal and professional fees, rental expenses, insurance expenses, bank charges, exchange losses, listing expenses and other miscellaneous administrative expenses. For FY2016, FY2017, FY2018 and 4M2019, our administrative and other expenses amounted to RMB32.4 million, RMB58.8 million, RMB64.7 million and RMB24.6 million, respectively.

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The following table sets forth the breakdown of administrative and other expenses incurred by us during the Track Record Period:

	FY2016	FY2017	FY2018	4M2018	4M2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Staff costs	15,048	22,674	23,255	7,331	8,133
Legal and professional fees	3,852	914	5,710	2,157	1,006
Rental expenses	3,051	2,860	5,659	2,212	745
Office expenses	3,211	3,588	4,522	1,519	1,476
Travelling and entertainment expenses	1,649	1,947	2,993	945	882
Depreciation	975	1,297	1,375	616	3,541
Amortisation of intangible assets	324	565	655	213	231
Bank charges	2,753	3,955	4,483	1,105	996
Exchange losses	—	17,170	4,820	—	—
Listing expenses	—	—	5,899	—	7,176
Others ( <i>Note</i> )	<u>1,570</u>	<u>3,796</u>	<u>5,329</u>	<u>1,069</u>	<u>441</u>
<b>Total</b>	<b><u>32,433</u></b>	<b><u>58,766</u></b>	<b><u>64,700</u></b>	<b><u>17,167</u></b>	<b><u>24,627</u></b>

*Note:* Others mainly include vehicle expenses, insurance expenses, impairment loss allowance of trade and bills receivables and building management fee.

### R&D expenses

According to the CIC Report, mobile phone is a fast-moving consumer good and end-consumers generally consider price, brand, appearance, weight, functions and camera's image quality before they decide to purchase a mobile phone. Mobile phone manufacturers constantly roll out new models with better appearance and functions to maintain their market share. In order to maintain our sales growth and compete with our competitors, we have to constantly devote significant amount of resources on R&D to develop new technologies applicable to our products and new models that can satisfy the ever-changing consumer preference. Our R&D projects mainly focus on developing new technologies, models and products and continuously upgrading and improving the functionality and features of existing products. Our R&D expenses primarily comprise (i) staff costs (including salaries and employee benefits) related to R&D personnel; (ii) raw material costs related to the raw materials consumed in R&D projects; (iii) costs of moulds and tools used in R&D projects; (iv) testing expenses; (v) utilities and office expenses; (vi) rental expenses; (vii) depreciation and amortisation.

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The following table sets forth the breakdown of our R&D expenses during the Track Record Period:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>4M2018</b>	<b>4M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Staff costs	39,137	50,883	43,997	12,353	12,740
Raw materials	21,359	25,658	30,303	3,094	4,531
Moulds and tools	9,158	8,229	9,072	2,096	2,530
Testing expenses	3,771	7,574	8,221	1,440	1,355
Office expenses	2,795	3,048	5,041	1,514	1,456
Rental expenses	1,235	2,193	2,295	701	765
Depreciation and amortisation	1,167	4,935	6,226	918	2,134
Others	<u>179</u>	<u>237</u>	<u>241</u>	<u>113</u>	<u>214</u>
	<u><u>78,801</u></u>	<u><u>102,757</u></u>	<u><u>105,396</u></u>	<u><u>22,229</u></u>	<u><u>25,725</u></u>

We incurred R&D expenses of RMB78.8 million, RMB102.8 million, RMB105.4 million and RMB25.7 million, accounting for 3.6%, 3.6%, 3.6% and 3.5% of our total revenue for FY2016, FY2017 and FY2018 and 4M2019, respectively. The significant increase in research and development expenses for FY2017 was related to (i) the development of new mobile phone models, PCBAs for smartphones, smart locks and smart home devices; (ii) enhancement of the functions of mobile phones (including but not limited to battery life, waterproof performance, camera's image quality and the implementation of health monitoring functions into mobile phones); (iii) the improvement of the mobile phone appearance and trim down of the size and weight of mobile phones; (iv) the development of artificial intelligence; and (v) the development of dual-lens camera. Our R&D staff costs amounted to RMB39.1 million, RMB50.9 million, RMB44.0 million and RMB12.7 million for FY2016, FY2017, FY2018 and 4M2019, respectively. Our R&D staff costs for FY2017 were higher as compared with FY2016 and FY2018 as we hired more R&D staff for the R&D of smart locks and other IoT related products.

For more information, please see “Business — Research, development and design” in this prospectus.

### Finance costs

Finance costs mainly represent interests on discounted bills, interest portion of lease liabilities, bank borrowings and factoring loans. For FY2016, FY2017, FY2018 and 4M2019, our finance costs amounted to RMB1.4 million, RMB7.5 million, RMB15.9 million and RMB5.1 million, respectively.

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### Income tax expenses

Income tax expenses represent the tax expenses arising from the assessable profit generated by our Group in the PRC. Our Company and subsidiaries are incorporated in different jurisdictions, with different taxation requirements and they are illustrated as follows:

#### *The PRC*

Our PRC subsidiaries, except for Shenzhen Sprocomm and Shanghai Sprocomm, were subject to EIT at a rate of 25% on their assessable profits during the Track Record Period. In July 2014, Shenzhen Sprocomm, one of our principal operating subsidiaries in the PRC, was granted the status of “High and New Technology Enterprise\* (高新技術企業)”, and such status has been renewed and extended for three years in October 2017. According to the applicable PRC laws and regulations, the assessable profits of Shenzhen Sprocomm will be subject to a preferential EIT rate of 15% until 2019. Further, Shanghai Sprocomm was accredited as a software enterprise\* (軟件企業) under the relevant PRC laws and regulations in December 2015. Accordingly, Shanghai Sprocomm was exempt from EIT for two years, between 2016 and 2017, followed by a 50% reduction in the EIT rate of 25% for the next three years, between 2018 and 2020. In addition, Shenzhen Sprocomm and Shanghai Sprocomm were entitled to an additional 50% of tax deduction for certain qualified research and development costs that did not constitute intangible assets when calculating our taxable income in 2016 and 2017, pursuant to the EIT Law and its relevant regulations. Starting from 1 January 2018, the aforesaid additional tax deductions related to qualified research and development costs were increased from 50% to 75%.

#### *Hong Kong*

The statutory tax rate of subsidiary in Hong Kong is 16.5%. No provision for Hong Kong profits tax had been provided for 2016 and 2018 and the four months ended 30 April 2019 as our subsidiary in Hong Kong has no assessable profits for both years. No tax is payable on the profit for the year 2017 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

During the Track Record Period, our income tax expenses amounted to RMB1.8 million, RMB65,000, RMB10.7 million and RMB3.5 million, respectively. Our effective income tax rate was 4.0%, 0.2%, 19.6% and 19.9% for FY2016, FY2017 and FY2018 and 4M2019, respectively. Our effective income tax rate during the Track Record Period was lower than the standard EIT rate of 25%, which was mainly due to the tax reduction or preferential income tax rate enjoyed by two of our PRC subsidiaries during the Track Record Period. Our effective tax rate for FY2018 and 4M2019 was relatively higher as compared with FY2016 and FY2017. The higher effective tax rate for FY2018 was primarily due to the recognition of withholding tax on undistributed earning of a PRC subsidiary of RMB7.8 million. The higher effective tax rate for 4M2019 was primarily due to the recognition of withholding tax on undistributed earning of a PRC subsidiary of RMB1.1 million and the recognition of listing expenses that were not deductible for tax purpose.



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## FINANCIAL INFORMATION

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### Transfer pricing

During the Track Record Period, Shenzhen Sprocomm, one of our major operating PRC subsidiaries, procures raw materials and components from various suppliers in the PRC for manufacturing and assembly, and sells a substantial portion of the finished products including smartphones and feature phones to HK Sprocomm, its wholly-owned Hong Kong subsidiary, for onward sales and shipments to overseas customers. Since 2018 upon commencement of production of our Luzhou Plant, Luzhou Sipukang, a wholly-owned subsidiary of Shenzhen Sprocomm, procured raw materials and components from various suppliers in the PRC for PCBA manufacturing and started selling PCBAs through HK Sprocomm to overseas customers as well. We are subject to transfer pricing related laws and regulations for the relevant cross boarder intra group transactions. For details, please see “Business — Sales and our customers — Transfer pricing” for details.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

#### 4M2019 compared with 4M2018

##### *Revenue*

Our revenue increased by RMB78.6 million or 11.8% from RMB665.7 million for 4M2018 to RMB744.3 million for 4M2019.

Our revenue generated from the sales of mobile phones increased by RMB52.1 million from RMB639.6 million for 4M2018 to RMB691.7 million for 4M2019. The increase was primarily due to the combined effects of:

- (i) the increase in sales to Algeria, mainly contributed by the increased sales orders for smartphones from Condor, who was our second largest customer for 4M2019;
- (ii) the increase in sales to PRC, mainly contributed by the increased sales orders for smartphones. For 4M2019, our major PRC customers, in particular two of our top five largest customers are renowned networking device providers; and
- (iii) the decrease in sales to India due to the implementation of our sales diversification strategy to reduce our revenue concentration in India.

Our revenue generated from the sales of PCBAs increased from nil for 4M2018 to RMB4.9 million for 4M2019. However, we recorded a decreasing trend on the sales of PCBAs during the Track Record Period, which was primarily due to our business strategy to focus on the sales of mobile phones, and accordingly we reallocated more production capacity of PCBAs to serve our internal needs for fulfilling mobile phone orders.

Our revenue generated from the sales of IoT related products increased by RMB13.0 million, from RMB5.8 million for 4M2018 to RMB18.8 million for 4M2019. The increase was attributable to (i) the increased popularity of IoT related products in the PRC; and (ii) the effort of our R&D department to promote the development of our IoT related products.

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### *Cost of sales*

Our cost of sales increased by 11.5%, from RMB606.3 million for 4M2018 to RMB676.3 million for 4M2019, which was in line with our revenue growth for 4M2019.

### *Gross profit and gross profit margin*

Our gross profit increased by 14.6% from RMB59.3 million for 4M2018 to RMB68.0 million for 4M2019. The increase in our gross profit was driven by (i) the aforesaid revenue growth of RMB78.6 million, mainly arising from the increased sales of mobile phones; and (ii) the slight increase in gross profit margin from 8.9% for 4M2018 to 9.1% for 4M2019 as our customer in Algeria demanded smartphones with higher specifications and the selling price of these smartphones were higher than that of our other product models.

### *Other gains and income*

Our other gains and income increased by RMB10.5 million from RMB5.5 million for 4M2018 to RMB16.0 million for 4M2019. The increase was primarily due to (i) the increase in the government subsidies granted to us in 4M2019 for the operation of Luzhou Plant; and (ii) the increase in gain arising from change in fair value of financial assets at FVTPL.

### *Selling expenses*

Our selling expenses increased by 11.1%, or by RMB1.1 million from RMB9.9 million for 4M2018 to RMB11.0 million for 4M2019. The increase was primarily due to the increase in staff costs and transportation and custom declaration expenses, which was in line with the increased revenue.

### *Administrative and other expenses*

Our administrative and other expenses increased by 43.5%, or by RMB7.4 million from RMB17.2 million for 4M2018 to RMB24.6 million for 4M2019. The increase was primarily due to the Listing expenses incurred of RMB7.2 million for 4M2019.

### *Finance costs*

Our finance costs increased by RMB2.1 million from RMB3.0 million for 4M2018 to RMB5.1 million for 4M2019. The increase was primarily due to the increase in the use of discounted bills loan.

### *Income tax expenses*

Our income tax expenses increased by RMB2.1 million from RMB1.4 million for 4M2018 to RMB3.5 million for 4M2019. The increase was primarily due to the recognition of withholding tax on undistributed earning of a PRC subsidiary of RMB1.1 million and the recognition of listing expenses that were not deductible for tax purpose for 4M2019.

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### *Profit for the period*

As a result of the above factors, our profit for the year increased by RMB2.9 million from RMB11.1 million for 4M2018 to RMB14.0 million for 4M2019. Net profit margin increased from 1.7% for 4M2018 to 1.9% for 4M2019.

### **FY2018 compared with FY2017**

#### *Revenue*

Our revenue increased by RMB54.0 million, or 1.9%, from RMB2,889.7 million for FY2017 to RMB2,943.7 million for FY2018.

Our revenue generated from the sales of mobile phones increased by RMB422.0 million, or 18.9%, from RMB2,235.8 million for FY2017 to RMB2,657.8 million for FY2018. The increase was primarily due to the combined effects of:

- (i) the increase in sales to India, mainly contributed by the sales orders placed by our two new customers in India, which participated in a scheme initiated by the local Indian government to give out free mobile phones to the citizens in Chhattisgarh State, India, partially offset by the decreased sales to LAVA. This was mainly because of our continuous efforts to diversify our customer base and reduce the concentration on certain major customers; and
- (ii) the increase in sales to Algeria, mainly contributed by Condor, who was our new and the fifth largest customer for FY2018.

Our revenue generated from the sales of PCBAs decreased by RMB279.8 million, or 65.3%, from RMB428.7 million for FY2017 to RMB148.9 million for FY2018. The decrease was primarily due to our business strategy to focus on the sales of mobile phones, and accordingly we reallocated more production capacity of PCBAs to serve our internal needs for fulfilling mobile phone orders.

Our revenue generated from the sales of IoT related products decreased by RMB74.4 million, or 53.0%, from RMB140.4 million for FY2017 to RMB66.0 million for FY2018. The decrease was primarily due to the completion of the IoT related project with the leading shared bicycles services provider in the PRC in early 2018.

#### *Cost of sales*

Our cost of sales slightly increased from RMB2,649.0 million for FY2017 to RMB2,680.5 million for FY2018, which was in line with our revenue growth for FY2018.

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### *Gross profit and gross profit margin*

Our gross profit increased by 9.4% from RMB240.7 million for FY2017 to RMB263.2 million for FY2018. The increase in our gross profit was driven by (i) the aforesaid revenue growth of RMB54.0 million mainly arising from the increase in sales of mobile phones to India and Algeria; and (ii) the slight increase in gross profit margin from 8.3% for FY2017 to 8.9% for FY2018 as our customer in Algeria demanded smartphones with higher specifications and the selling price of these smartphones were higher than that of our other product models.

### *Other gains and income*

Our other gains and income increased by 172.6% from RMB10.2 million for FY2017 to RMB27.8 million for FY2018. The increase was primarily due to the increase in the government subsidies granted to us in FY2018 for the setup and operation of our Luzhou Plant in 2018.

### *Selling expenses*

Our selling expenses increased by 1.4% from RMB49.7 million for FY2017 to RMB50.4 million for FY2018. The increase was primarily due to the combined effects of (i) the increase in staff costs due to salary increment; (ii) the increase in our travelling and entertainment expenses, as a result of our continuous efforts to expand customer base and exploit new markets by our sales and marketing staff; and (iii) the decrease in transportation and custom declaration expenses. In December 2017, we had to process a significant amount of sales orders and a portion of our finished goods were transported from the PRC to Hong Kong, but yet to be loaded on the ships and delivered to our customers as at 31 December 2017. The transportation and custom declaration expenses for these finished goods were recognised in FY2017.

### *Administrative and other expenses*

Our administrative and other expenses increased by 10.0% from RMB58.8 million for FY2017 to RMB64.7 million for FY2018. The increase was primarily due to (i) the recognition of Listing expenses of RMB5.9 million for FY2018 (FY2017: nil); and (ii) the increase in legal and professional fees by RMB4.8 million, comprising (a) consultancy service fees of RMB3.0 million on supply chain management; and (b) provision for litigation costs and claims of RMB1.8 million. For details of our litigations, please see “Business — Litigations” in this prospectus.

### *Finance costs*

Our finance costs increased by 112.0% from RMB7.5 million for FY2017 to RMB15.9 million for FY2018. The increase was primarily due to the (i) finance costs of our mortgage loan drawn to finance the acquisition of our R&D centre in Shanghai; (ii) increase in interest rate; and (iii) increase in the use of discounted bills loans during the year.

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### *Income tax expenses*

Our income tax expenses increased from RMB65,000 for FY2017 to RMB10.7 million for FY2018. The increase was primarily due to the recognition of withholding tax on undistributed earnings of a PRC subsidiary of RMB7.8 million for FY2018.

### *Profit for the year*

As a result of the above factors, our profit for the year increased by 37.1% from RMB32.1 million for FY2017 to RMB44.0 million for FY2018. Net profit margin slightly increased from 1.1% for FY2017 to 1.5% for FY2018.

### **FY2017 compared with FY2016**

#### *Revenue*

Our revenue increased by RMB717.8 million, or 33.1%, from RMB2,171.9 million for FY2016 to RMB2,889.7 million for FY2017. The increase was primarily due to the increased revenue generated from sales of mobile phones.

Our revenue generated from the sales of mobile phones increased by RMB892.2 million, or 66.4%, from RMB1,343.6 million for FY2016 to RMB2,235.8 million for FY2017. The increase was primarily due to the combined effects of:

- (i) the increase in our sales to India, mainly contributed by LAVA and Micromax Group, which are two major mobile phone brand owners and suppliers in India.
- (ii) the increase in sales to the PRC mainly due to the increased orders of feature phones from a well-established branded mobile phone supplier in the PRC; and
- (iii) the increase in demand from other emerging markets in particular, Pakistan, which was contributed by the increased sales to Digicom QMobile, one of our top five customers for FY2016 and FY2017.

Our revenue generated from the sales of PCBAs decreased by RMB320.0 million, or 42.7%, from RMB748.7 million for FY2016 to RMB428.7 million for FY2017. The decrease was primarily because of (i) change of product mix shifting our focus from PCBAs to mobile phones. Our Directors are of the view that we can create higher value for our customers and increase our market share by supplying a complete mobile phone to our customers instead of just a single component; and (ii) an increasing orders for our mobile phones, requiring us to reallocate more production capacity to serve our internal production needs.

We launched our first IoT related product and started to generate revenue from the sales of IoT related products in 2017. Our revenue generated from the sales of IoT related products for FY2017 amounted to RMB140.4 million, which was primarily because we initiated a project with a leading shared bicycles services provider in the PRC in 2017.

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### *Cost of sales*

Our cost of sales increased by 32.0% from RMB2,006.2 million for FY2016 to RMB2,649.0 million for FY2017 which was in line with the increase in our revenue for FY2017.

### *Gross profit and gross profit margin*

Our gross profit increased by 45.4% from RMB165.6 million for FY2016 to RMB240.7 million for FY2017. The increase in our gross profit was driven by (i) the aforesaid revenue growth of RMB717.8 million mainly arising from the increase in sales of mobile phones to India, the PRC and other emerging markets; and (ii) the increase in gross profit margin from 7.6% for FY2016 to 8.3% for FY2017 as the sales of IoT related product and the provision of other services had a higher gross profit margin than our mobile phones.

### *Other gains and income*

Our other gains and income decreased by 22.1% from RMB13.1 million for FY2016 to RMB10.2 million for FY2017. The higher other gains and income for FY2016 was primarily attributed to the net exchange gains of RMB5.2 million recorded for this year.

### *Selling expenses*

Our selling expenses increased by 130.1% from RMB21.6 million for FY2016 to RMB49.7 million for FY2017. The increase was primarily due to the higher transportation and custom declaration expenses for FY2017 resulting from (i) our increased revenue generated from the overseas markets from RMB2,061.3 million in FY2016 to RMB2,579.9 million in FY2017; and (ii) a significant amount of sales orders were being processed in December 2017 and a portion of our finished goods were transported from the PRC to Hong Kong, but yet to be loaded on the ships and delivered to our customers as at 31 December 2017. The transportation and custom declaration expenses for these finished goods were recognised in FY2017.

### *Administrative and other expenses*

Our administrative and other expenses increased by 81.5% from RMB32.4 million for FY2016 to RMB58.8 million for FY2017. The increase was primarily due to (i) the increase in staff costs due to an increase in headcount of administrative and management staff; and (ii) exchange losses of RMB17.2 million recognised for FY2017, as a result of the depreciation of USD against RMB, but partially offset by the decrease in legal and professional fees of RMB2.9 million. In FY2016, we incurred consultancy fees of RMB1.7 million mainly for enhancing our product development process and RMB0.7 million on the application for government subsidies.

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### *Finance costs*

Our finance costs increased by 435.7% from RMB1.4 million for FY2016 to RMB7.5 million for FY2017. The increase was primarily due to the increase in the use of discounted bills loans during the year.

### *Income tax expenses*

Our income tax expenses decreased from RMB1.8 million for FY2016 to RMB65,000 for FY2017. The decrease was primarily due to the increase in tax-deductible research and development expenses which reduced our taxable profits.

### *Profit for the year*

As a result of the above factors, our profit for the year decreased by 24.8% from RMB42.7 million for FY2016 to RMB32.1 million for FY2017. Net profit margin decreased from 2.0% for FY2016 to 1.1% for FY2017.

## LIQUIDITY AND CAPITAL RESOURCES

We historically financed our operations through cash generated from our operations and borrowings. Our primary uses of cash include procurement costs of raw materials and components, payment of staff costs and other expenses incurred in our operations. Upon completion the Global Offering, our Directors expect that our source of funds will be a combination of cash generated from our operation and net proceeds from the Global Offering, and we may also rely on debt financing, if necessary.



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### Cash flows

The following table is a condensed summary of our combined statements of cash flows for the periods indicated:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>4M2018</b>	<b>4M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Operating cash flows before working capital changes	42,288	38,749	59,540	15,325	17,303
Net cash generated from/ (used in) operating activities	(130,955)	69,545	343,403	173,774	(77,761)
Net cash used in investing activities	(37,282)	(119,563)	(284,752)	(115,138)	(51,419)
Net cash generated from/ (used in) financing activities	252,544	31,697	(73,709)	(75,088)	122,025
Cash and cash equivalents as at the beginning of the year/period	3,326	91,826	68,830	68,830	56,118
Effect of foreign exchange rate changes	4,193	(4,675)	2,346	(1,668)	837
Cash and cash equivalents as at the end of the year/period	91,826	68,830	56,118	50,710	49,799

### *Operating activities*

Net cash flows from operating activities primarily consist of our profit before tax, adjusted by non-cash and non-operating items, such as government subsidies, depreciation, amortisation of intangible assets, finance cost and the effect of changes in working capital.

Our cash inflow generated from operating activities is primarily derived from the sales of our products, whereas our cash outflow for operating activities mainly related to purchase of raw materials and components used in production, payment of staff costs and EIT and other expenses incurred in our operations.

For 4M2019, we had net cash used in operating activities of RMB77.8 million due to the decrease in contract liabilities of RMB77.3 million after the delivery of our products to customers during 4M2019.

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For FY2018, our net cash generated from operating activities amounted to RMB343.4 million, while our cash inflow from operating activities after adjusting for non-cash and non-operating items but before movements in working capital was amounted to RMB59.5 million. The difference of RMB283.9 million was mainly due to (i) the decrease in inventories of RMB175.0 million arising from the higher inventory balance maintained as at 31 December 2017 to satisfy our production needs and finished goods yet to be delivered to our customers to fulfill the increased sales orders in November and December 2017; and (ii) the increase in trade and bills payables of RMB145.6 million primarily due to certain suppliers allowed us, and we preferred to settle the purchase of raw materials by way of bank acceptance bills with maturity period ranging from three to six months.

For FY2017, our net cash generated from operating activities amounted to RMB69.5 million, while our cash inflow from operating activities after adjusting for non-cash and non-operating items but before movements in working capital was amounted to RMB38.7 million. The difference of RMB30.8 million was mainly due to the combined effects of (i) the increase in trade and bills payables of RMB258.4 million which was in line with the aforesaid increase in purchase of raw materials in late 2017 to fulfill the increased sales orders in November and December 2017; and (ii) the increase in inventories of RMB222.7 million arising from the aforesaid higher inventory balance maintained as at 31 December 2017 to fulfill the increased sales orders in November and December 2017.

For FY2016, our net cash used in operating activities amounted to RMB131.0 million, while our cash inflow from operating activities after adjusting for non-cash and non-operating items but before movements in working capital was amounted to RMB42.3 million. The difference of RMB173.3 million was mainly due to the combined effects of (i) the increase in trade and bills receivables of RMB225.3 million, which was attributable to the adjustment of our product mix in FY2016 to better suit the needs of our customers. We increased the sales proportion of mobile phones and decreased the sales proportion of PCBAs. The change in our product mix increased our sales revenue. On the other hand, it also increased our trade and bills receivables as at 31 December 2016 and our cash outflows from operating activities, as customers required us to grant a longer credit period for the sales of mobile phones; and (ii) the increase in trade and bills payables of RMB63.2 million.

### *Investing activities*

For 4M2019, our net cash used in investing activities amounted to RMB51.4 million which was mainly due to the combined effects of (i) the purchase of financial assets at FVTPL of RMB193.2 million; and (ii) the proceeds from disposal of financial assets at FVTPL of RMB175.7 million.

For FY2018, our net cash used in investing activities amounted to RMB284.8 million which was mainly due to the combined effects of (i) the purchase of financial assets at FVTPL of RMB476.3 million; (ii) the payments for property, plant and equipment of RMB66.2 million which were mainly related to the purchase of four SMT lines in our Luzhou Plant in FY2018; and (iii) proceeds from disposal of financial assets at FVTPL of RMB265.6 million.

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For FY2017, our net cash used in investing activities amounted to RMB119.6 million which was mainly due to the combined effects of (i) the purchase of financial assets at FVTPL of RMB296.0 million; (ii) the payments for property, plant and equipment of RMB66.2 million which were mainly related to the property purchased in Shanghai in November 2017 for the use of our R&D centre and office; (iii) placement in pledged bank deposits of RMB14.9 million; and (iv) proceeds from disposal of financial assets at FVTPL of RMB265.4 million.

For FY2016, our net cash used in investing activities amounted to RMB37.3 million which was mainly due to the combined effects of (i) the purchase of financial assets at FVTPL of RMB247.0 million; and (ii) proceeds from disposal of financial assets at FVTPL of RMB232.0 million.

### *Financing activities*

For 4M2019, our net cash generated from financing activities amounted to RMB122.0 million which was mainly due to the new borrowings raised of RMB439.4 million, partially offset by the repayment of borrowing of RMB317.6 million. The borrowing was mainly related to the credit facilities granted by a bank and secured by the letters of credit issued by the banks designated by our customers.

For FY2018, our net cash used in financing activities amounted to RMB73.7 million which was mainly related to the repayment of borrowings of RMB599.8 million. The effect was partially offset by (i) the new borrowings raised of RMB492.8 million; and (ii) the government subsidies received of RMB35.4 million. The borrowings were mainly related to the credit facilities granted by a bank and secured by the letters of credit issued by the banks designated by our customers.

For FY2017, our net cash generated from financing activities amounted to RMB31.7 million which was mainly related to (i) the government subsidies received of RMB28.9 million; and (ii) the new borrowings raised of RMB1,050.2 million. The effect was partially offset by the repayment of borrowings of RMB1,060.0 million. The borrowing was mainly related to (i) the credit facilities granted by a bank and secured by the letters of credit issued by the banks designated by our customers; (ii) the factoring loan with recourse obtained; and (iii) the mortgage loan obtained to finance the purchase of our property in Shanghai.

For FY2016, our net cash generated from financing activities amounted to RMB252.5 million which was mainly related to (i) the new borrowings raised of RMB655.4 million; and (ii) the government subsidies received of RMB18.5 million. The effect was partially offset by the repayment of borrowings of RMB421.4 million. The borrowings was mainly related to the credit facilities granted by a bank and secured by the letters of credit issued by the banks designated by our customers.

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### WORKING CAPITAL

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April 2019	As at 31 August 2019
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
<b>Current assets</b>					
Inventories	140,748	356,947	184,292	123,550	224,311
Trade and bills receivables	274,612	244,668	417,066	524,093	494,686
Financial assets at FVTPL	47,990	79,420	295,480	316,170	261,639
Prepayments and other receivables	93,162	77,294	74,770	47,484	72,479
Amount due from a related company	—	7,900	—	—	—
Amount due from a shareholder	900	563	1,076	1,072	1,072
Amount due from non-controlling shareholder of a subsidiary	—	5,625	—	—	—
Pledged bank deposits	—	14,340	24,639	64,273	63,413
Bank balances and cash	<u>91,826</u>	<u>68,830</u>	<u>56,118</u>	<u>49,799</u>	<u>55,480</u>
Total current assets	649,238	855,587	1,053,441	1,126,441	1,173,080
<b>Current liabilities</b>					
Trade and bills payables	231,042	487,979	646,529	670,186	710,978
Accruals and other payables	85,342	110,679	106,817	86,062	89,751
Contract liabilities	43,688	7,449	109,138	32,018	84,900
Borrowings	245,772	194,444	95,509	223,994	145,611
Amount due to a related company	3,345	—	—	—	—
Lease liabilities	—	—	—	7,424	6,480
Deferred income	—	—	6,609	6,609	6,609
Income tax payable	<u>1,158</u>	<u>807</u>	<u>2,310</u>	<u>3,892</u>	<u>4,898</u>
Total current liabilities	<u>610,347</u>	<u>801,358</u>	<u>966,912</u>	<u>1,030,185</u>	<u>1,049,227</u>
<b>Net current assets</b>	<u><u>38,891</u></u>	<u><u>54,229</u></u>	<u><u>86,529</u></u>	<u><u>96,256</u></u>	<u><u>123,853</u></u>

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Our net current assets increased from RMB38.9 million as at 31 December 2016 to RMB54.2 million as at 31 December 2017. This was primarily due to (i) our increasing sales performance, which increased our inventory level by RMB216.2 million and our financial assets at FVTPL by RMB31.4 million, which were pledged to banks to secure the issuance of bank acceptance bills to our suppliers for the settlement of our outstanding purchase amounts; and (ii) the decrease in our contract liabilities of RMB36.2 million; and partially offset by the increase in our trade and bills payables of RMB256.9 million.

Our net current assets increased from RMB54.2 million as at 31 December 2017 to RMB86.5 million as at 31 December 2018, which was primarily due to the increase in our financial assets at FVTPL by RMB216.1 million, and partially offset by the increase in our trade and bills payables by RMB158.6 million.

Our net current assets increased from RMB86.5 million as at 31 December 2018 to RMB96.3 million as at 30 April 2019, mainly due to (i) the increase in our trade and bills receivables of RMB107.0 million; and (ii) the decrease in our contract liabilities of RMB77.1 million, and partially offset by the increase in our current portion of borrowings of RMB128.5 million.

Our net current assets increased from RMB96.3 million as at 30 April 2019 to RMB123.9 million as at 31 August 2019, which was primarily due to the increase in inventories of RMB100.8 million as a result of the increased purchase orders received from customers, and partially offset by the increase in trade and bills payable of RMB40.8 million.

### **Sufficiency of Working Capital**

Our Directors are of the opinion that, taking into consideration the internal resources and banking facilities presently available to our Group, cash generated from our operation, and the estimated net proceeds to be received by us from the Global Offering, our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing from the date of this prospectus.

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### INDEBTEDNESS

#### Borrowings

Our Group obtains borrowings from banks and factoring company to finance our business operations and to fulfil working capital requirements. We repaid our borrowings through our internally generated funds. The following table sets forth our borrowings as at the dates indicated:

	As at 31 December			As at	As at
	2016	2017	2018	30 April	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Factoring loans with recourse	—	40,000	17,073	17,073	17,073
Bank borrowings					
Current portion of long-term borrowings, secured	—	3,049	3,049	3,049	3,049
Long-term borrowings, secured	—	28,201	25,152	24,390	23,628
Discounted bills loans with recourse	<u>245,772</u>	<u>151,395</u>	<u>75,387</u>	<u>203,872</u>	<u>125,489</u>
	<u>245,772</u>	<u>222,645</u>	<u>120,661</u>	<u>248,384</u>	<u>169,239</u>

Our outstanding borrowings as at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 August 2019 were RMB245.8 million, RMB222.6 million, RMB120.7 million, RMB248.4 million and RMB169.2 million, respectively.

#### *Factoring loans with recourse*

To finance our business operations, we factored certain accounts receivables to a factoring company with recourse basis. The annualised interest rate was 4%. As at 31 December 2017 and 2018, 30 April 2019 and 31 August 2019, the carrying amount of the receivables not derecognised (i.e. factored to the factoring company) and the borrowings were RMB40.0 million, RMB17.1 million, RMB17.1 million and RMB17.1 million, respectively.

#### *Bank borrowings*

We obtained a mortgage loan to finance the purchase of our property in Shanghai as R&D centre and office in 2017, which is repayable by instalments within 10 years and bears interest at the 10% premium over the People's Bank of China benchmark lending rate per annum. The loan is secured by (i) the property as collateral, of which the carrying amount as at 31 December 2017, 2018 and 30 April 2019 was RMB63.1 million, RMB63.0 million and RMB61.9 million, respectively; and (ii) the guarantee from Shenzhen Sprocomm. The total outstanding amount of such loan as at 31 December 2017 and 2018, 30 April 2019 and 31 August 2019 was RMB31.3 million, RMB28.2 million, RMB27.4 million and RMB26.7 million, respectively.

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### *Discounted bills loans with recourse*

Our outstanding discounted bills loans with recourse as at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 August 2019 were RMB245.8 million, RMB151.4 million, RMB75.4 million, RMB203.9 million and RMB125.5 million, respectively, which were credit facilities granted by a bank to our Group and secured by the letters of credit issued by the banks designated by our customers. The aggregate amounts of trade and bills receivables discounted to obtain such loans was RMB245.8 million, RMB151.4 million, RMB75.4 million and RMB203.9 million, respectively, as at 31 December 2016, 2017 and 2018, 30 April 2019. As at 31 December 2016, 2017 and 2018 and 30 April 2019, discounted bills loans with recourse of RMB245.8 million, RMB151.4 million, RMB75.4 million and RMB203.9 million respectively carried interest rate ranging from 0.23% to 3.77% per annum. As at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 August 2019, our banking facility for discounted bills loans with recourse were fully utilised. As at 31 December 2016, the banking facility of US\$5.0 million was secured by (i) the personal guarantee from Mr. Li; and (ii) the corporate guarantees from HK Sprocomm and an independent third party. As at 31 December 2017, the banking facility of US\$10.0 million was secured by (i) the personal guarantee from Mr. Li; and (ii) the corporate guarantee from an independent third party. As at 31 December 2018, we obtained the banking facility of US\$39.0 million, of which US\$24.0 million was secured by (i) the personal guarantees from Mr. Li and Mr. Xiong; and (ii) the corporate guarantee from Shenzhen Sprocomm. As at 30 April 2019, we obtained the banking facility of US\$43.0 million, of which US\$24.0 million was secured by (i) the personal guarantees from Mr. Li and Mr. Xiong; and (ii) the corporate guarantee from Shenzhen Sprocomm.

In September 2018, we obtained consent letter from the relevant bank and it agreed to release the aforesaid personal guarantees given by Mr. Li and Mr. Xiong upon Listing, provided that the aforesaid personal guarantees will be replaced by the corporate guarantee from our Company.

As at 31 December 2017 and 2018, 30 April 2019 and 31 August 2019, pursuant to the relevant loan agreements, Shanghai Sprocomm was subject to the debt covenant that maintaining a positive net asset value on the outstanding bank borrowings of RMB31.3 million, RMB28.2 million, RMB27.4 million and RMB26.7 million, respectively. As at 31 December 2018, 30 April 2019 and 31 August 2019, pursuant to the relevant loan agreements, HK Sprocomm was subject to the debt covenant that current ratio cannot be less than 1.0 times on the banking facility of US\$3.0 million, US\$10.0 million and US\$10.0 million, respectively.

Our Directors confirm that Shanghai Sprocomm and HK Sprocomm did not breach any of the aforesaid debt covenants and there had been no defaults by our Group in payment of its factoring loans with recourse, bank borrowings and discounted bills loans with recourse during the Track Record Period. For details, please see to note 28 of the Accountants' Report set out in Appendix I to this prospectus.



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### **Lease liabilities**

We have adopted HKFRS 16 since 1 January 2019 as stated in note 3 and note 4 in the Accountants' Report set out in Appendix I to this prospectus. As at 30 April 2019 and 31 August 2019, our total lease liabilities (including current and non-current portions) amounted to RMB13.7 million and RMB11.6 million, respectively. For further details, please see "Critical accounting policies and estimates" and "Impact of adoption of new and amendments to certain accounting policies" in this section.

### **Amount due to a related company**

The amount due to related companies amounted to RMB3.3 million, nil, nil, nil and nil as at 31 December 2016, 2017 and 2018, 30 April 2019 and 31 August 2019, respectively. The amounts due to a related company is non-trade nature, unsecured, non-interest bearing and repayable on demand.

### **Contingent liabilities**

As at 31 December 2016, 2017 and 2018 and 30 April 2019, we did not have any material contingent liabilities.

As at 31 August 2019, being the latest practicable date for this indebtedness statement, save as disclosed in this section, we do not have any debt securities, term loans, borrowings or indebtedness in the nature of borrowing, mortgages, charges, debenture, contingent liabilities or guarantees. Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 August 2019 and up to the date of this prospectus. Our Directors confirmed that as at the Latest Practicable Date, we did not have any unutilised banking facilities and immediate plan for additional material external debt financing.

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### COMMITMENTS

#### Operating leases commitment

##### *Our Group as lessee*

Our Group leased factory, R&D centre, offices and warehouses under non-cancellable operating lease agreements with lease terms of one to six years. Set out below is the future aggregate minimum lease payments under non-cancellable operating lease which fall due as follow:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	7,127	9,762	9,619
In the second to fifth year (inclusive)	18,028	15,181	9,703
	25,155	24,943	19,322

*Note:* Lease liabilities in respect of leases with lease terms of over 12 months (except for those with remaining lease term of 12 months or less as at 1 January 2019) are set out in the “Indebtedness — Lease liabilities” in this section. Commitments disclosed as at 31 December 2016, 2017 and 2018 represent future minimum lease payments under non-cancellable operating leases as defined under HKAS 17.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Our Group did not have any material off-balance sheet commitments and arrangements.

### DESCRIPTION ON SELECTED ITEMS FROM OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Property, plant and equipment

The table below shows the carrying value of our property, plant and equipment as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold improvement	8,483	5,023	18,799	17,143
Plant and machinery	8,175	7,248	45,002	43,085
Furniture and fixture	1,970	1,294	1,592	1,393
Motor vehicle	401	436	346	301
Office equipment	3,537	3,136	2,660	2,776
Land and buildings	—	63,070	62,952	61,871
Total	22,566	80,207	131,351	126,569

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The carrying value of our property, plant and equipment increased by RMB57.6 million from RMB22.6 million as at 31 December 2016 to RMB80.2 million as at 31 December 2017, which was primarily due to the property we purchased in Shanghai in November 2017 for the use of our R&D centre and office.

The carrying value of our property, plant and equipment increased by RMB51.2 million from RMB80.2 million as at 31 December 2017 to RMB131.4 million as at 31 December 2018, which was primarily due to the four SMT lines purchased in FY2018. The carrying value of our property, plant and equipment decreased to RMB126.6 million as at 30 April 2019, primarily attributed to recognition of depreciation for the period.

### Intangible assets

Our intangible assets mainly comprised computer software and patents used for our business operations. The carrying value of our intangible assets as at 31 December 2016, 2017 and 2018 and 30 April 2019 amounted to RMB4.4 million, RMB5.3 million, RMB5.2 million and RMB5.0 million, respectively.

### Inventories

Our inventories mainly comprised (i) raw materials, such as PCBAs, display modules, camera modules and mobile chips for the production of our products; (ii) work in progress; and (iii) finished goods.

The table below sets out the summary of our inventory balances as at the dates indicated and turnover days for the indicated periods:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	60,874	146,266	114,063	95,096
Work in progress	18,696	22,589	16,011	5,552
Finished goods	<u>61,178</u>	<u>188,092</u>	<u>54,218</u>	<u>22,902</u>
Total	<u>140,748</u>	<u>356,947</u>	<u>184,292</u>	<u>123,550</u>
	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>4M2019</b>
Average inventory turnover days	<u>22.4</u>	<u>34.3</u>	<u>36.8</u>	<u>27.3</u>

*Note:* Average inventory turnover days is calculated based on the average balance of inventory divided by cost of sales for the relevant year/period and multiplied by 365 days for FY2016, FY2017 and FY2018 or by 120 days for 4M2019. Average balance of inventory is calculated by dividing the sum of inventory at the beginning and the end of the year/period by two.

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Our inventories amounted to RMB140.7 million, RMB356.9 million, RMB184.3 million and RMB123.6 million as at 31 December 2016, 2017 and 2018 and 30 April 2019, respectively. For FY2016, FY2017, FY2018 and 4M2019, our average inventory turnover days were 22.4 days, 34.3 days, 36.8 days and 27.3 days, respectively.

The higher balance of inventory as at 31 December 2017 was primarily due to higher balance of raw materials maintained to satisfy our production needs and finished goods yet to be delivered to our customers as at 31 December 2017, resulting from the increased sales orders in November and December 2017. Our average inventory turnover days were higher for FY2017 and FY2018, primarily due to the relatively higher balance of inventory as at 31 December 2017 and 2018. Our inventories as at 30 April 2019 decreased and our average inventory turnover days for 4M2019 shortened due to the decrease in finished goods.

We actively monitor our inventory levels for slow moving inventory, obsolescence or declines in market value. Our management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. We carry out an inventory review regularly and make allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the carrying amount, impairment may arise. We did not have obsolete and slow-moving inventories and therefore no provision was made during the Track Record Period.

Inventories amounted to RMB116.3 million, representing 94.1% of the inventory balance as at 30 April 2019, have been used or sold as at 31 August 2019.

### Trade and bills receivables

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our trade and bills receivables amounted to RMB274.6 million, RMB244.7 million, RMB417.1 million and RMB524.1 million, respectively. The table below sets out a breakdown of our trade and bills receivables as at the dates indicated and the average turnover days of trade and bills receivables for the indicated periods:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	274,612	233,403	418,024	515,985
Less: Loss allowance for trade receivables	—	—	(1,096)	(1,476)
	274,612	233,403	416,928	514,509
Bills receivables	—	11,265	138	9,584
Trade and bills receivables	<u>274,612</u>	<u>244,668</u>	<u>417,066</u>	<u>524,093</u>

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	FY2016	FY2017	FY2018	4M2019
Average trade and bills receivables turnover days (Note)	<u>26.3</u>	<u>32.8</u>	<u>41.0</u>	<u>75.9</u>

*Note:* Average trade and bills receivables turnover days is calculated based on the average balance of trade and bills receivables divided by revenue for the relevant year/period and multiplied by 365 days for FY2016, FY2017 and FY2018 or by 120 days for 4M2019. Average balance of trade and bills receivables is calculated by dividing the sum of trade and bills receivables at the beginning and the end of the year/period by two.

We generally grant credit period ranging from 30 to 90 days to our customers. In order to minimise our credit risk, we carefully assess the background information and credit worthiness of our customers before we decide to grant them credit periods. Further, we also closely monitor the payment record of our customers and regularly review the credit terms we granted to them. Our credit assessment is based on various factors, including but not limited to the financial strength, size of the business and payment history of our customers and length of their business relationship with us. We allow PRC customers to settle their purchases by way of bank acceptance bills with maturity period ranging from three to six months.

The relatively higher trade and bills receivables as at 31 December 2018 and 30 April 2019 was primarily due to the increased sales in December 2018 and April 2019 and these sales were still within the credit period we granted to the relevant customers.

Our average trade and bills receivables turnover days for FY2016, FY2017, FY2018 and 4M2019 were 26.3 days, 32.8 days, 41.0 days and 75.9 days, respectively, which was within the credit periods we normally offered to our customers and generally in line with the increase in our trade and bills receivables.

### *Ageing analysis and subsequent settlement*

The following table sets out the ageing analysis of our trade and bills receivables, based on the invoice date, as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	223,177	89,358	320,707	390,186
31 to 60 days	47,541	73,647	71,792	68,501
61 to 90 days	3,703	14,736	15,292	40,011
Over 90 days	<u>191</u>	<u>66,927</u>	<u>10,371</u>	<u>26,871</u>
	274,612	244,688	418,162	525,569
Less: Impairment loss allowance	<u>—</u>	<u>—</u>	<u>(1,096)</u>	<u>(1,476)</u>
Total	<u>274,612</u>	<u>244,668</u>	<u>417,066</u>	<u>524,093</u>

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The following table sets out the ageing analysis of trade and bills receivables which were past due but not impaired based on due date, as at the dates indicated:

	As at 31 December	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	123	66,906
31–60 days	68	21
	191	66,927

As at 31 December 2016 and 2017, the trade and bills receivables that were past due but not impaired were RMB0.2 million and RMB66.9 million, respectively. They were related to several independent customers that have a good track record with our Group. Based on experience, our management believes that there has not been a significant change in credit quality of those independent customers and these balances are considered recoverable. Our Group did not hold any collateral over these balances. Our management closely monitors the recoverability of overdue trade and bills receivables on a regular basis and provides for impairment for these trade and bills receivables when there are indications that the balances may not be recoverable. Our management was not aware of any significant change in credit quality of the trade and bills receivables. Prior to 1 January 2018, our Group adopted HKAS 39 and used incurred loss model to determine impairment loss. No impairment loss allowance was recognised for FY2016 and FY2017 under HKAS 39.

From 1 January 2018, HKFRS 9 became effective and replaced HKAS 39. HKFRS 9 requires the use of expected credit loss model to assess impairment losses. For details of the adoption of HKFRS 9, please see “4. Significant accounting policies — Financial instruments” set out in note 4 of Appendix I to this prospectus. We have applied the simplified approach to determine the provision for impairment for expected credit losses (the “ECLs”) prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics. Our impairment loss allowance for ECLs of trade and bills receivables on a collective basis was RMB0.3 million, RMB1.1 million and RMB1.5 million as at 1 January 2018, 31 December 2018 and 30 April 2019, respectively. The impairment loss as at 1 January 2018, 31 December 2018 and 30 April 2019 are determined as follows:

	Gross carrying amount of trade and bills receivables			Gross carrying amount of trade and bills receivables			Gross carrying amount of trade and bills receivables		
	Average expected loss rate	as at 1 January 2018	Impairment loss allowance as at 1 January 2018	Average expected loss rate	as at 31 December 2018	Impairment loss allowance as at 31 December 2018	Average expected loss rate	as at 30 April 2019	Impairment loss allowance as at 30 April 2019
Internal credit rating									
Low risk	0.11	244,668	275	0.26	418,162	1,096	0.28	525,569	1,476

As at 31 August 2019, RMB507.0 million, or 96.7% of the trade and bills receivables outstanding as at 30 April 2019 had been subsequently settled.

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### Amount due from a related company/a shareholder/non-controlling shareholder of a subsidiary

The amount due from a related company, a shareholder and non-controlling shareholder of a subsidiary (the “**Due Amount**”) during the Track Record Period was non-trade in nature, unsecured, non-interest bearing and repayable on demand. As at December 2016, 2017 and 2018 and 30 April 2019, the Due Amount was RMB0.9 million, RMB14.1 million, RMB1.1 million and RMB1.1 million, respectively. Our Directors confirmed that the outstanding Due Amount will be fully settled upon Listing.

### Prepayments and other receivables

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	70,262	39,035	9,735	9,733
Deposit	1,766	1,868	1,393	1,340
Other tax recoverable	17,954	33,338	56,147	34,343
Others	3,180	3,053	7,495	2,068
<b>Total</b>	<b>93,162</b>	<b>77,294</b>	<b>74,770</b>	<b>47,484</b>

Our prepayments primarily consist of the prepayments to certain suppliers for purchasing of raw materials which are not yet received. Our other tax recoverable primarily consists of VAT recoverables resulting from procurement of equipment and raw materials which were eligible for VAT deduction in the future. The continuous decrease in prepayments and other receivables as at 31 December 2016, 2017 and 2018 and 30 April 2019 was primarily due to the decrease in our prepayments to suppliers. Certain major suppliers granted credit period to us for the purchase of raw materials since 2017, instead of requiring prepayments for the procurement.

Prepayments and other receivables as at 31 December 2016, 2017 and 2018 and 30 April 2019 were RMB93.2 million, RMB77.3 million, RMB74.8 million and RMB47.5 million, respectively.

### Financial assets at FVTPL

Our financial assets at FVTPL comprise structured deposits and wealth management products issued by licensed commercial banks. The structured deposits carried interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period. The underlying investment portfolio of the wealth management products included but not limited to treasury bonds, central bank bills, financial bonds, money-market funds, inter-bank lending, debentures and foreign currencies. We also pledged the aforesaid financial assets to certain banks for the issuance of bank acceptance bills to our suppliers for the settlement of our purchases of raw materials and components. As at 31 December 2016, 2017 and 2018 and 30 April 2019, our financial assets at FVTPL amounted to RMB48.0 million, RMB79.4 million, RMB295.5 million and



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RMB316.2 million, respectively, of which nil, RMB41.7 million, RMB295.5 million and RMB316.2 million were pledged to banks for the issuance of bank acceptance bills. The following table sets forth the summary of our financial assets at FVTPL as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Structured deposits stated at fair value	4,190	42,950	295,480	316,170
Wealth management products stated at fair value	<u>43,800</u>	<u>36,470</u>	<u>—</u>	<u>—</u>
	<u><u>47,990</u></u>	<u><u>79,420</u></u>	<u><u>295,480</u></u>	<u><u>316,170</u></u>

The following tables set forth the details of our financial assets at FVTPL as of the dates indicated:

*Structured deposits stated at fair value (principal-protected with floating income)*

Issuing Bank <sup>(Note 1)</sup>	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank A	4,190	1,300	—	—
Bank B	—	41,650	164,780	152,570
Bank C	<u>—</u>	<u>—</u>	<u>130,700</u>	<u>163,600</u>
	<u><u>4,190</u></u>	<u><u>42,950</u></u>	<u><u>295,480</u></u>	<u><u>316,170</u></u>

The principal terms of the structured deposits are set out below:

Term and/or early termination: Bank A: can be withdrawn on demand  
 Bank B: around three to six months  
 (can only be withdrawn at maturity)  
 Bank C: around three to six months  
 (can only be withdrawn at maturity)

Expected or actual rate of return: Bank A: 1.4% per annum  
 Bank B: 1.5% to 4.7% per annum  
 Bank C: 3.7% to 4.2% per annum

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### *Wealth management products stated at fair value (principal-unprotected with floating income)*

	As at 31 December			As at
Issuing Bank <sup>(Note 1)</sup>	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank A	9,000	36,000	—	—
Bank D	<u>34,800</u>	<u>470</u>	<u>—</u>	<u>—</u>
	<u><u>43,800</u></u>	<u><u>36,470</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

The principal terms of the wealth management products are set out below:

Risk Classification: <sup>(Note 2)</sup>	Bank A: Low Bank D: Low to medium
Expected or actual rate of return:	Bank A: 2.9% to 3.8% per annum Bank D: 3.8% to 4.0% per annum
Term:	Bank A: can be withdrawn on demand Bank D: can be withdrawn on demand

*Notes:*

1. All of the structured deposits and wealth management products subscribed were issued by the commercial banks in PRC and denominated in RMB. As at the Latest Practicable Date, Bank A is listed on the Shanghai Stock Exchange and its long term credit rating was maintained at Baa2 with a stable rating outlook from Moody's Investors Service, Inc. (the "Moody's"); Bank B is listed on the Stock Exchange and its long term credit rating was maintained at A3 with a stable rating outlook from Moody's; Bank C is listed on both the Stock Exchange and the Shanghai Stock Exchange and its long term credit rating was maintained at BBB- with a stable rating outlook from S&P Global Ratings; and Bank D is listed on both the Stock Exchange and the Shanghai Stock Exchange and its long term credit rating was maintained at A3 with a stable rating outlook from Moody's.
2. Such risk classifications are based on the internal risk assessment provided by the relevant banks for internal reference only.

As at 31 December 2016 and 2017, wealth management products stated at fair value of RMB43.8 million and 36.5 million were not principal guaranteed. Despite that, these financial assets were subsequently redeemed without suffering any losses. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the structured deposits stated at fair value of RMB4.2 million, RMB43.0 million, RMB295.5 million and RMB316.2 million were principal guaranteed. During the Track Record Period, the gain arising from change in fair value of financial assets at FVTPL amounted to RMB0.5 million, RMB0.8 million, RMB5.3 million and RMB3.1 million, respectively. We are subject to various risks associated with investing in financial assets. Please see "Risk factors — Our results of operations, financial condition and prospects may be adversely affected by fair value changes in our

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financial assets at FVTPL, our financial assets are also subject to credit, counterparty and concentration risks” for details. To control the risks associated with investing in financial assets at FVTPL, we have implemented relevant risk management policies to monitor the investment risks associated with these deposits. For details of our risk management policies, please see “Business — Internal control and risk management” in this prospectus. Upon Listing and going forward, we intend to invest in principal-guaranteed financial assets at FVTPL.

### Trade and bills payables

The following table sets forth a breakdown of our Group’s trade and bills payables as at dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	231,042	457,031	339,551	354,120
Bill payables	—	30,948	306,978	316,066
Total	<u>231,042</u>	<u>487,979</u>	<u>646,529</u>	<u>670,186</u>

As at 31 December 2016, 2017 and 2018 and 30 April 2019, our trade and bills payables amounted to RMB231.0 million, RMB488.0 million, RMB646.5 million and RMB670.2 million, respectively. The continuous increase in our trade and bills payables was primarily because certain suppliers allowed us, and we preferred to settle the purchase of raw materials by way of bank acceptance bills with maturity period ranging from three to six months. Our bills payables increased from RMB30.9 million as at 31 December 2017 to RMB307.0 million as at 31 December 2018.

The following is an ageing analysis of trade payables, based on the invoice date, as at the dates indicated and the average turnover days for the indicated periods:

	As at 31 December			As at
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	131,648	300,763	317,573	380,533
31 to 60 days	55,713	151,232	131,903	91,343
61 to 90 days	17,767	23,792	56,713	37,303
Over 90 days	<u>25,914</u>	<u>12,192</u>	<u>140,340</u>	<u>161,007</u>
	<u>231,042</u>	<u>487,979</u>	<u>646,529</u>	<u>670,186</u>

## FINANCIAL INFORMATION

	FY2016	FY2017	FY2018	4M2019
Average trade and bills payables turnover days (Note)	<u>36.3</u>	<u>49.5</u>	<u>77.2</u>	<u>116.8</u>

*Note:* Average trade and bills payables turnover days is calculated based on the average balance of trade and bills payables divided by cost of sales for the relevant year/period and multiplied by 365 days for FY2016, FY2017 and FY2018 or by 120 days for 4M2019. Average balance of trade and bills payables is calculated by dividing the sum of trade payables at the beginning and the end of the year/period by two.

Our suppliers generally grant us credit period ranging from 30 to 60 days, with certain suppliers require us to make the payment in advance. We have financial risk management policies in place to ensure that all payables are settled within the credit timeframe. Certain suppliers allow us to settle our purchases by way of bank acceptance bills. We also endorsed certain bills receivables accepted by local banks in the PRC to our suppliers in order to settle the trade payable due to them.

Our average trade and bills payables turnover days for FY2016, FY2017, FY2018 and 4M2019 were 36.3 days, 49.5 days, 77.2 days and 116.8 days. The average trade and bills payables turnover days for FY2018 and 4M2019 were longer than the general credit periods granted due to the higher bills payables as at 31 December 2018 and 30 April 2019 provided that our Group is generally required to settle the bills payables to the relevant banks within a period ranging from three to six months.

As at 31 August 2019, RMB532.3 million, or 79.4% of the trade and bills payables outstanding as at 30 April 2019 had been subsequently settled.

### Accruals and other payables

The following table sets forth our Group's accruals and other payables as at the dates indicated:

	As at 31 December			As at 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salary payable	40,765	56,317	62,593	51,858
Government subsidies in advance	11,510	31,294	12,358	12,358
Other tax payables	25,874	17,547	18,352	7,917
Accrued Listing expenses	—	—	439	1,719
Other payables	<u>7,193</u>	<u>5,521</u>	<u>13,075</u>	<u>12,210</u>
Total	<u>85,342</u>	<u>110,679</u>	<u>106,817</u>	<u>86,062</u>

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## FINANCIAL INFORMATION

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As at 31 December 2016, 2017 and 2018 and 30 April 2019, our accruals and other payables amounted to RMB85.3 million, RMB110.7 million, RMB106.8 million and RMB86.1 million, respectively.

Our government subsidies in advance was higher as at 31 December 2017, which was primarily because we obtained government subsidies from the relevant PRC government authorities for the purposes of financing the capital expenditure incurred for property and equipment, leasehold improvement and recruitment of workers before fulfilling certain conditions under the terms of the government subsidies. As at 31 December 2017, government subsidies in advance of RMB19.6 million that our Group has subsequently fulfilled the relevant conditions was transferred to deferred income and amortised over the useful life of the related assets during FY2018.

Our other payables are mainly related to payables for acquisition of machineries and leasehold improvement, accrued transportation costs and accrued consultancy and professional expenses. As at 31 December 2016, 2017, 2018 and 30 April 2019, our other payables amounted to RMB7.2 million, RMB5.5 million, RMB13.1 million and RMB12.2 million, respectively. The higher other payables as at 31 December 2018 was primarily attributed to (i) the increase in payables for acquisition of machineries and accrued transportation costs as a result of the set up and operation of our Luzhou Plant in 2018; and (ii) provision for litigation costs and claims of RMB1.8 million. For details of our litigations, please see “Business — Litigations”. in this prospectus.

Our Directors confirm that there had been no material defaults by our Group in payments of our other payables and accruals during the Track Record Period.

### **Contract liabilities**

We normally require deposits from our customers, ranging from 5% to 30% of the contract values, when they sign the sales and purchase agreement with us. For certain IoT related product orders during the Track Record Period, we required 80% of the contract value as upfront deposits when the relevant customer signed the sale agreement. These deposits are recognised as contract liabilities until the control of the products are transferred to the customer. As at 31 December 2016, 2017 and 2018 and 30 April 2019, our contract liabilities amounted to RMB43.7 million, RMB7.5 million, RMB109.1 million and RMB32.0 million, respectively. The balance of contract liabilities as at 31 December 2016, 2017 and 2018 are recognised as revenue during FY2017, FY2018 and 4M2019. The significant increase in our contract liabilities as at 31 December 2018 was related to the purchase orders from Digicom QMobile.

### **CAPITAL EXPENDITURES**

During the Track Record Period, we incurred capital expenditure mainly on property, plant and equipment and intangible asset. Our capital expenditures were RMB20.6 million, RMB67.6 million, RMB66.8 million and RMB0.9 million for FY2016, FY2017, FY2018 and 4M2019, respectively. These capital expenditures were funded by the cash flows from our operating activities and bank borrowings.

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## FINANCIAL INFORMATION

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### KEY FINANCIAL RATIOS

The table below sets forth our key financial ratios as at 31 December 2016, 2017 and 2018 and 30 April 2019 or for FY2016, FY2017, FY2018 and 4M2019:

	As at 31 December/FY			As at
	2016	2017	2018	30 April 2019/ 4M2019
Current ratio (times) (Note 1)	1.1	1.1	1.1	1.1
Quick ratio (times) (Note 2)	0.8	0.6	0.9	1.0
Gearing ratio (%) (Note 3)	368.8	197.1	73.6	147.0
Debt to equity ratio (%) (Note 4)	231.0	136.2	39.4	119.1
Interest coverage (times) (Note 5)	32.8	5.3	4.4	4.4
Return on assets (%) (Note 6)	6.3	3.4	3.7	N/A (Note 8)
Return on equity (%) (Note 7)	64.1	28.4	26.8	N/A (Note 8)

*Notes:*

1. Current ratio is calculated by dividing current assets by current liabilities.
2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
3. Gearing ratio is calculated by dividing total debt by total equity. Total debt is defined as the sum of borrowings and lease liabilities.
4. Debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include total debt net of bank balances and cash.
5. Interest coverage is calculated by dividing profit before finance costs and income tax expenses by finance costs.
6. Return on assets is calculated by dividing net profit for the year with the closing balance of total assets.
7. Return on equity is calculated by dividing net profit for the year with the closing balance of total equity.
8. Return on assets and return on equity are calculated on a full year basis.

#### Current ratio

Our current ratio remained relatively stable at 1.1 times, 1.1 times, 1.1 times and 1.1 times as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively.

#### Quick ratio

Our quick ratio was 0.8 times, 0.6 times, 0.9 times and 1.0 times as at 31 December 2016, 2017, 2018 and 30 April 2019, respectively. The lower quick ratio as at 31 December 2017 was primarily due to a higher inventory balance.

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## FINANCIAL INFORMATION

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### **Gearing ratio**

Our gearing ratio decreased from 368.8% as at 31 December 2016 to 197.1% as at 31 December 2017, and further decreased to 73.6% as at 31 December 2018, which was primarily due to the continuous decrease in the balances of discounted bills loans with recourse as at 31 December 2017 and 2018. Our gearing ratio increased to 147.0% as at 30 April 2019 which was primarily due to the increase in the balance of discounted bills loan with recourse as at 30 April 2019.

### **Debt to equity ratio**

Our debt to equity ratio decreased from 231.0% as at 31 December 2016 to 136.2% as at 31 December 2017, and further decreased to 39.4% as at 31 December 2018, which was primarily due to the continuous decrease in the balances of discounted bills loans with recourse as at 31 December 2017 and 2018. Our debt to equity ratio increased to 119.1% as at 30 April 2019 was primarily due to the increase in the balance of discounted bills loan with recourse as at 30 April 2019.

### **Interest coverage**

Our interest coverage decreased from 32.8 times for FY2016 to 5.3 times for FY2017, and further decreased to 4.4 times for FY2018. The decrease was mainly due to the increase in finance costs for FY2017 and FY2018, resulted from the increase in the use of discounted bills loans during FY2017 and FY2018. Our interest coverage remained stable at 4.4 times for 4M2019.

### **Return on assets**

Our return on assets decreased from 6.3% for FY2016 to 3.4% for FY2017, and remained relatively stable at 3.7% for FY2018. The decrease in return on assets for FY2017 was primarily due to the decrease in our profit for FY2017.

### **Return on equity**

Our return on equity decreased from 64.1% for FY2016 to 28.4% for FY2017, primarily due to the decrease in our net profit for FY2017. Our return on equity remained relatively stable at 26.8% for FY2018.

## **RELATED PARTY TRANSACTIONS**

With respect to the related party transactions set out in note 39 of the Accountants' Report set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favorable to us than terms available from independent third parties which are fair and reasonable and in the interest of the Shareholders as a whole.



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## FINANCIAL INFORMATION

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### PROPERTY INTERESTS

During the Track Record Period, a property owned by us with a gross floor area of approximately 1,580 sq.m. was used as our R&D centre and office. In addition, our Group leased six properties as our factory, R&D centre, warehouse and offices. For details of our owned and leased properties, please see “Business — Properties” in this prospectus.

As at the Latest Practicable Date, no single property interest forming part of our Group’s non-property activities had a carrying amount of 15% or more of our total assets. Thus, this prospectus is exempted from compliance with the requirements of rules 5.01A and 5.01B of the Listing Rules and the requirements of section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, with respect to the inclusion of a property valuation report in this prospectus.

Save as disclosed above, our Group did not have any other property interests as at the Latest Practicable Date.

### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see “Unaudited pro forma financial information” in Appendix II to this prospectus for details.

### DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

### DIVIDENDS

Dividends may be paid out by ways of cash or by other means we consider appropriate. For FY2017, Shenzhen Sprocomm declared dividends of RMB20.0 million. All the dividends declared during the Track Record Period had been fully settled as at the Latest Practicable Date. Save for the aforesaid dividends, no dividend has been proposed by the companies comprising the Group during Track Record Period and up to the Latest Practicable Date. We do not have a predetermined dividend payout ratio. Payment of any future dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant.

The declaration, payment and amount of any future dividends will be subject to our constitutional documents including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

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## FINANCIAL INFORMATION

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### LISTING EXPENSES

Listing expenses directly attributable to the issue of new shares are recognised in equity, otherwise they are recognised as administrative and other expenses.

The total estimated listing expenses in connection with the Global Offering was HK\$41.5 million, of which HK\$16.0 million will be charged against equity upon successful Listing under relevant accounting standards. For FY2018 and 4M2019, Listing expenses of HK\$6.9 million and HK\$8.4 million were charged to consolidated statement of profit or loss and other comprehensive income, respectively. For the eight months ending 31 December 2019, we estimate that the remaining listing expenses of HK\$10.2 million will be charged to the consolidated statement of profit or loss and other comprehensive income. Our Group's financial performance and results of operation for the year ending 31 December 2019 will be affected by the estimated expenses in relation to the Listing.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Our Group is exposed to various financial risks, including cash flow and fair value interest rate risk, foreign currency risk, credit risk and liquidity risk in the ordinary course of our business. For further details of our financial risk management, please see to note 38 in the Accountants' Report.

### MATERIAL ADVERSE CHANGE

Our Directors confirmed that, up to the date of this prospectus, there has been no material adverse change, other than the impact of the estimated expenses in relation to the Listing, in our financial positions and business prospects since 30 April 2019, being the end date of period reported in the Accountants' Report. There has been no event since 30 April 2019 and up to the date of this prospectus which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Our Directors believe that the Listing will facilitate the implementation of our business strategies for continued growth and further business expansion. As a top 10 ODM mobile phone supplier in the PRC, we strive to attain growth by maintaining our market share with strong R&D capability targeting emerging markets and expanding our product portfolio to diversify our revenue drivers, through various strategies as set out in “Business — Business strategies” in this prospectus.

### REASONS FOR LISTING

To realise our business strategies and implement our plans, our Directors consider that additional funding from Listing will be beneficial to our Group taking into account of the followings:

- as part of our business strategies, we target local top mobile phone suppliers and telecommunication operators in emerging markets as our potential customers. Our Directors believe that a public listing status will enhance our corporate profile and recognition which will not only provide higher confidence to our existing and potential customers to facilitate our obtaining of sales orders but also attract talents for R&D for long term business growth;
- to enhance cost efficiency and solidify our positioning as a vertically integrated mobile phone supplier offering one-stop ODM services to our customers, we need funds to better equip ourselves with higher SMT production capacity for PCBAs to meet our customers’ needs for mobile phones and PCBAs;
- to adapt to the technological change, the expected launch of 5G network and popularity of 5G mobile phones, our Directors believe additional funds enable us to increase our resources on R&D for rapid and smooth validation of 5G related products; and
- as IoT is becoming common in the PRC and worldwide, our Directors believe we would be able to supplement our product offering to increase our revenue drivers in a faster pace if we have additional funds for our R&D and marketing of our IoT related products, which include for example smart locators, smart speakers and smart locks.

We further elaborate on our commercial rationale for listing and our genuine funding needs as follows.

#### *Our Group’s genuine funding needs*

During the Track Record Period, we mainly relied on our internal resources and banking facilities (including discounted bills loans and factoring loans) to finance our business operations. As at 30 April 2019, our bank balances and cash amounted to RMB49.8 million and our credit facilities of RMB203.9 million were fully utilised. Based on our scale of business operation for the year ended 31 December 2018, our average monthly operating costs, including cost of sales, selling expenses, administrative and other expenses (excluding Listing expenses) and research and development

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## FUTURE PLANS AND USE OF PROCEEDS

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expenses, amounted to approximately RMB182.6 million. Our bank balances and cash as at 30 April 2019 of approximately RMB49.8 million would only be sufficient to meet our operating costs for approximately one week, and accordingly we also need banking facilities to finance our operations.

During the Track Record Period, we raised new borrowings of RMB655.4 million, RMB1,050.2 million, RMB492.8 million and RMB439.4 million, respectively, of which RMB655.4 million, RMB979.0 million and RMB492.8 million and RMB439.4 million were discounted bills loans with recourse. These discounted bills loans were short-term and bore low interest rates ranging from 0.23% to 3.72% per annum because they were secured by the letters of credit issued by the banks designated by our customers. These discounted bills loans usually mature in 60 to 90 days from the date of the letters of credit, when our banks receive payments from the banks that issued the letters of credit. Since discounted bills loans are short-term and require letters of credit as collateral, they are used to finance the settlement of our operating costs, instead of long-term capital expenditure. As a result of the use of debt financing to finance our business operations during the Track Record Period, we incurred a significant amount of finance costs and recorded high gearing ratio.

In addition to the use of internal resources and debt financing to finance our business operations, we increased our purchases from suppliers that accept bank acceptance bills in FY2018 to improve our liquidity. Our outstanding bills payables significantly increased from RMB30.9 million as at 31 December 2017 to RMB307.0 million as at 31 December 2018 and remained relatively stable at RMB316.1 million as at 30 April 2019. The banks that issue the bank acceptance bills to our suppliers required us to provide collaterals (bank deposits and/or financial assets at FVTPL) with value which is equivalent to 100% of the face value of the bank acceptance bills. As at 30 April 2019, the entire amount of financial assets at FVTPL of RMB316.2 million together with certain bank deposits were pledged to the banks for the issuance of bank acceptance bills. As financial assets at FVTPL generate higher interest income than bank deposits, we would allocate more of our funds to financial assets at FVTPL, which would then be pledged to the banks for the issuance of bank acceptance bills.

***The listing can shorten the time it takes our Group to implement our expansion plan and capture the market growth***

Manufacturing of mobile phone on ODM basis is a capital-intensive business as we have to devote significant amount of resources to acquire property, plant and equipment and to carry out R&D.

According to the CIC Report, China topped the list of smartphone unit shipments by region, representing 30.6% of global smartphone unit shipments in 2018, followed by Emerging Asia (excluding China) and North America with shares of 17.5% and 13.5% respectively. The global smartphone market will continue to grow from 2018 to 2023 because the rollout of 5G smartphones and the increasing disposable income of Emerging Asia are expected to stimulate consumer demand for new mobile phones.

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## FUTURE PLANS AND USE OF PROCEEDS

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Our Directors believe that mobile phone manufacturers with sufficient production capacity and research and development capability will benefit from the aforesaid market growth, and therefore it is crucial for us to continuously devote capital resources to acquire new production lines, research and development equipment, hire additional talents and carry out R&D to capture the potential market growth from Emerging Asia. Our Directors also believe that expanding our production capacity and enhancing and production capability could enhance cost and production efficiency.

Notwithstanding the above, establishment and expansion of production plants take time. We need to (i) install and conduct trial run on the new production lines before they reach full production; and (ii) train up new recruits. As stable supply of quality PCBAs is key to success of offering mobile phones, we took the advantage from local incentive policies and set up our Luzhou Plant for SMT production for mobile phone PCBAs in 2018. On top of our Shenzhen Plant which is equipped with 10 mobile phone assembly lines, we established our Luzhou Plant which is equipped with four SMT lines in April 2018 with an annualised production capacity of 2.5 million pieces. Due to cost efficiency, we generally produce PCBAs for smartphones rather than feature phones. In FY2018, our sales volume of smartphones was 7.1 million and we also sold a total of 1.5 million smartphone PCBAs as stand-alone products. Hence, the total volume of smartphone PCBAs we consumed in FY2018 was 8.6 million pieces. Based on the current annualised production capacity for our Luzhou Plant, we may still have to outsource the assembly work for a large portion of smartphone PCBAs to EMS providers. After the smooth trial run for our Luzhou Plant in 2018 and the cost-benefit analysis set out below, our management believe that we could move on for gradual expansion of our production capacity for our Luzhou Plant to enhance our Group's cost and production efficiency and achieve better quality control.

### ***Cost-benefit analysis for equipping two additional SMT lines for our Luzhou Plant (the “new SMT lines”)***

#### *Assumptions*

We made the following principal assumptions when performing the cost-benefit analysis:

- 1) The cost of raw materials and components are excluded from the calculation, given that our Group should procure raw materials and components consumed in the assembly work no matter producing the PCBAs by itself or outsourcing the assembly work to EMS providers.
- 2) We assume our Group will not incur any rental charges for its Luzhou Plant and hence exclude the rental expenses from the calculation, given that Luzhou High Technology Development Zone Management Committee agreed to give allowance for 100% of the rental for the first three years and 50% of the rental for the fourth and fifth year if certain conditions will be fulfilled, pursuant to the investment cooperation agreement entered into between Luzhou High Technology Development Zone Management Committee\* (瀘州高新技術產業開發區管理委員會) and Shenzhen Sprocomm in August 2017.
- 3) The new SMT lines will be fully utilised.

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## FUTURE PLANS AND USE OF PROCEEDS

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- 4) Other additional costs per each of the new SMT lines per month will remain the same as that of the existing four SMT lines in its Luzhou Plant recognised in the first quarter of 2019.

### *Cost-benefit analysis*

The following tables set forth (i) the average cost would be incurred if our Group established the new SMT lines and assembled PCBAs for 4G smartphone by itself; and (ii) the average subcontracting fees of outsourcing the assembly work to EMS providers in FY2018.

#### **Average cost of assembling PCBAs for 4G smartphone by establishing the new SMT lines**

Additional labour costs per year ( <i>RMB</i> )( <i>Note 1</i> )	6,000,000
Additional depreciation of equipment per year ( <i>RMB</i> )( <i>Note 2</i> )	2,938,250
Other additional costs per year ( <i>RMB</i> )( <i>Note 3</i> )	<u>1,045,752</u>
 Total additional costs per year ( <i>RMB</i> )	 9,984,002
Annual production capacity of two more SMT lines (pieces) ( <i>Note 4</i> )	1,267,200
Average cost of assembling PCBAs for 4G smartphone by establishing the new SMT lines ( <i>RMB/piece</i> )	7.88

#### *Notes:*

1. Additional labour costs per year equal to the annual cost of 100 staff that our Group plans to recruit to support the operation of the new SMT lines.
2. Additional depreciation of equipment per year is calculated based on the straight-line depreciation method, assuming a useful life of 10 years. The costs of equipment equal to the proceeds that our Group plans to utilise to acquire the new SMT lines.
3. Other additional costs per year represent the utility expenses and other overhead incurred in the production if our Group established the new SMT lines and are calculated based on the average monthly other costs per SMT line recognised by our Group for the existing four SMT lines in its Luzhou Plant in the first quarter of 2019.
4. Annual production capacity of the new SMT lines is calculated by multiplying 300 pieces per hour per SMT line, two SMT lines, 8 working hour per day and 264 working days per year.

#### **Average cost of outsourcing the assembly work to EMS providers**

Subcontracting fees of outsourcing the assembly work of PCBA for 4G smartphone to EMS providers in FY2018 ( <i>RMB</i> )	20,626,688
 Number of PCBA for 4G smartphone outsourced to EMS providers in FY2018 (pieces)	 2,245,722
 Average subcontracting fees in FY2018 ( <i>RMB/piece</i> )	 9.18

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## FUTURE PLANS AND USE OF PROCEEDS

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The average cost of assembling PCBAs for 4G smartphone if we acquired the new SMT lines would be approximately RMB7.88 per piece. Comparing with the cost of approximately RMB9.18 per piece if outsourcing the assembly work to EMS providers (i.e. the subcontracting fees) in FY2018, we would save approximately RMB1.30, or approximately 14.2%, for each piece of PCBAs for 4G smartphone assembled by establishing the new SMT lines in our Luzhou Plant.

### *Payback period analysis*

We made the following principal assumptions when performing the payback period analysis:

#### *Assumptions*

- 1) The new SMT lines will be fully utilised.
- 2) Average selling price of 4G smartphone will remain the same as that for FY2018.
- 3) The net profit margin of the 4G smartphones will equal to the net profit margin recorded by our Group for FY2018.

#### *Payback period analysis*

The following table sets forth the calculation of payback period of the new SMT lines:

Annual production capacity of the new SMT lines (pieces) ( <i>Note</i> )	1,267,200
Annual sales volume of 4G smartphones (assembled by using PCBAs from the new SMT lines) (pieces)	1,267,200
ASP of 4G smartphone for FY2018 ( <i>RMB</i> )	348
Annual revenue from the sales of the above 4G smartphones ( <i>RMB</i> )	440,985,600
Net profit margin for FY2018	1.5%
Net profit from the sales of the above 4G smartphones ( <i>RMB</i> )	6,614,784
Initial investment of the new SMT lines ( <i>RMB</i> )	29,382,500
<b>Payback period (years)</b>	<b>4.4</b>

*Notes:* Annual production capacity of the new SMT lines is calculated by multiplying 300 pieces per hour per SMT line, two SMT lines, 8 working hour per day and 264 working days per year.

The payback period of the new SMT lines acquired will be approximately 4.4 years.

Given that (i) it is cheaper for our Group to produce the PCBAs by ourselves than to subcontract the production to its subcontractors; (ii) we can better control the production schedule under self-production; and (iii) the costs of the new SMT lines would be recovered in approximately 4.4 years, our Directors are of the view that it is in the best interests of our Company and Shareholders to acquire the new SMT lines to expand the production capacity.



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## FUTURE PLANS AND USE OF PROCEEDS

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ODM mobile phone industry is competitive. If we do not have sufficient capacity and capability to cater for the market demand, our potential customers would simply switch to our competitors.

Despite the fact that our business is profit making, it would take us approximately two years to accumulate the net proceeds from the Global Offering of approximately RMB83.5 million if we rely on our net profit to fund our expansion plan (assuming our future net profit remain at similar level at RMB44.0 million for the year ended 31 December 2018 and all other factors remain constant, including but not limited to selling price and cost of sales remain constant and no dividend would be distributed to Shareholders). By the time we accumulate sufficient capital for our expansion plan, our competitors would have taken a lead in enjoying the market growth.

***The listing can reduce the liquidity risk and finance costs arising from the reliance on debt financing to finance our expansion plan***

As at the Latest Practicable Date, our bank facilities were fully utilised, our unpledged assets were limited, and our financial assets at FVTPL were fully pledged. The net book value of unpledged property, plant and equipment amounted to RMB65.7 million as at 30 April 2019. These unpledged property, plant and equipment mainly comprised of (i) machineries of our Luzhou Plant with a net book value of RMB38.9 million as at 30 April 2019 that could not be pledged for the reasons mentioned below; (ii) leasehold improvements, motor vehicles, office equipment, furniture and fixture with low resale value, and accordingly they are generally not accepted by banks or financial institutions as pledged assets; and (iii) machineries of our Shenzhen Plant with a minimal net book value resulting from the recognition of depreciation expenses. Our Group received government grants in relation to the acquisition of the machineries of our Luzhou Plant and the government departments which offered the relevant government grants did not allow our Group to pledge these machineries for debt financing. Nevertheless, our Group approached principal banks to apply for additional facilities to finance our expansion plan. Our applications for additional facilities were rejected given our limited amounts of unpledged assets. Since debt financing is not feasible for a foreseeable period, our Directors believe that equity financing is the sole available source of fund to finance our expansion plan.

For illustrative purpose, if our banks agree to grant us the additional banking facilities, our bank borrowings as at 30 April 2019 would increase from RMB248.4 million to RMB331.9 million and our gearing ratio would rise up to 193.8%. Our finance costs for the year ended 31 December 2018 would increase by RMB4.2 million, assuming an interest rate of 5% per annum. It would take us approximately two years to repay the aforesaid additional bank borrowings and we would also incur finance costs for two years amounting to approximately RMB8.4 million, if we apply our profit for the year ended 31 December 2018 to repay the aforesaid additional bank borrowings (assuming our future profits remain at similar level at RMB44.0 million for the year ended 31 December 2018 and all other factors remain constant, including but not limited to selling price and cost of sales remain constant and no dividend would be distributed to Shareholders).

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## FUTURE PLANS AND USE OF PROCEEDS

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Our Directors consider that over-reliance on debt financing would expose us to a huge liquidity risk, especially when there are any unforeseen economic downturns and the additional finance costs would also affect our financial performance. Listing can provide an additional source of funding, which allows us to achieve our expansion plan and reduce our potential exposure to the aforesaid liquidity risk. A listing status also provides us a platform for future capital financing as and when needed, which would be beneficial to our Group's overall development in the long run.

### SUSTAINABILITY OF OUR GROUP'S BUSINESS

**The market size of global mobile phone market is huge (in terms of sales value) and it will continue to grow**

Mobile phones have become an indispensable part of everyone's daily lives. The global sales value of mobile phones increased at a CAGR of 4.8% from USD404.2 billion in 2014 to USD488.3 billion in 2018. It is expected that the global sales value of mobile phones will further increase at a CAGR of 3.2% from 2018 and reach USD570.9 billion in 2023, because the rollout of 5G mobile phones and the increasing disposable income of emerging markets will stimulate consumers to purchase new mobile phones.

Upstream market players of mobile phone manufacturing industry include manufacturers of mobile phone components and suppliers of operation system and application software. Midstream market players mainly include ODMs, OEMs and OBMs. ODMs are responsible for the design, research and development and production of mobile phones on behalf of the mobile phone brand owners. Major ODM players include Wingtech, Huaqin and Longcheer. OEMs are responsible for the production of mobile phones with the design and brands of the mobile phone brand owners. Major OEM players include Foxconn, Pegatron, BYD and Inventec. Major OBM players include Samsung, OPPO and VIVO, who design and manufacture mobile phones under their own brand names. Major mobile phone brand owners include Apple, Huawei and Xiaomi. For cost reduction and more efficient product development, it has been a common industry practice for the mobile phone brand owners to engage China's ODMs to carry out the research and development and production of mobile phones and China's OEMs to carry out the production of mobile phones. By outsourcing the design, research and development and production to ODMs or the production to OEMs, mobile phone brand owners can concentrate on the marketing and distribution of mobile phone products to end users.

According to the CIC Report, the unit shipments of mobile phones manufactured by China mobile phone ODMs increased from 557.2 million in 2014 to 608.5 million in 2018, and are expected to reach 645.0 million in 2023 at a CAGR of 1.2% from 2018 to 2023. The mobile phone unit shipments of China's OEMs increased from 742.9 million in 2014 to 753.2 million in 2018, and are expected to reach 781.2 million in 2023. While the mobile phone unit shipments of China's OBMs grew from 382.0 million in 2014 to 436.7 million in 2018, and are anticipated to decrease to 390.6 million in 2023 as more OBMs are expected to outsource their manufacturing process to OEMs or ODMs.

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## FUTURE PLANS AND USE OF PROCEEDS

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### **Our Group is one of the leading market players in China's mobile phone ODM market**

The mobile phone ODM market in China was relatively concentrated, and is expected to be more concentrated as market players are becoming polarised. Top 10 market players accounted for 58.3% of total market share in China's mobile phone ODM market, in terms of mobile phone unit shipments. Our Group, with a market share of 3.3%, ranked 5th among all China's mobile phone ODMs in 2018. As our Group is one of the leading market players in China's mobile phone ODM market and the global mobile phone market is very huge, our Group recorded revenue of RMB2,171.9 million, RMB2,889.7 million and RMB2,943.7 million, representing a CAGR of 16.4% during each of FY2016, FY2017 and FY2018 respectively.

### **Our Group targets its sales to the top local branded mobile phone suppliers, telecommunication operators and trading companies in India and other emerging markets, and these companies have a significant market share**

According to the CIC Report, future growth of the global mobile phone market will be mainly driven by Emerging Asia (excluding China). Emerging Asia (excluding China) witnessed the fastest growth of smartphone shipment from 2014 to 2018 at a CAGR of 11.8%. The large population bases of Emerging Asia (excluding China), the current low smartphone penetration rates, and the significant investments in R&D and advertising from Chinese mobile phone brand owners in Emerging Asia (excluding China) will drive the growth of smartphone unit shipments in Emerging Asia (excluding China) at a CAGR of 10.9% from 2018 to 2023.

According to the CIC report, the mobile phone markets in India, Algeria, Pakistan and Bangladesh in 2018 were dominated by (i) mobile phone brand owners, such as Samsung, Apple, Huawei, Xiaomi, OPPO and VIVO; and (ii) the top local branded mobile phone suppliers, telecommunication operators and trading companies, such as Micromax, Lava, Condor, Qmobile and Symphony.

Local telecommunication operators normally put more emphasis on services and creating good customer experience by upgrading their physical outlets, and maintaining good relationship with these operators is important for ODMs to increase sales. The competitive landscape is expected to get increasingly challenging in Emerging Asia (excluding China). The low smartphone penetration rate has been attracting many companies, especially Chinese brands looking for new overseas opportunities in the context of China's saturated highly domestic smartphone market.

As compared with other China's mobile phone ODMs, our Group targets its sales to top local branded mobile phone suppliers, telecommunication operators and trading companies, which also a significant market share in Emerging Asia (excluding China). Our revenue from Emerging Asia (excluding China) increased from RMB1,939.7 million in FY2016 to RMB2,189.4 million in FY2018, representing a CAGR of 6.2%.

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## FUTURE PLANS AND USE OF PROCEEDS

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Our major customers include (i) Lava who ranked the 4th in terms of unit shipments of feature phones in India in 2018, and Micromax who ranked 6th in terms of unit shipments of smartphones and feature phones in India in 2018; (ii) Condor who ranked 1st in terms of unit shipments of smartphones in Algeria in 2018; (iii) Digicom QMobile who ranked 5th in terms of unit shipments of smartphones in Pakistan in 2018; (iv) Symphony of Edison Group who ranked the 1st in terms of unit shipments of smartphones in Bangladesh in 2018, each according to the CIC Report.

Taking into consideration that (i) the market size of global mobile phone market is huge (in terms of sales value) and it will continue to grow; (ii) our Group, with a market share of 3.3%, ranked 5th among all China's mobile phone ODMs in 2018; (iii) our Group's major customers are top local branded mobile phone suppliers, telecommunication operators and trading companies in India and other emerging markets with significant market shares; and (iv) our Group recorded sales growth at a CAGR of 16.4% during each of FY2016, FY2017 and FY2018, respectively, our Directors believe that our business is sustainable.

### USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$0.55 per Share, being the mid-point of the indicative range of the Offer Price of HK\$0.5 to HK\$0.6 per Share, and assuming the Over-allotment Option is not exercised) will be HK\$96.0 million. Our Directors intend to apply the net proceeds from the Global Offering as follows:

- (1) HK\$44.1 million (equivalent to RMB38.4 million, representing approximately 46.0% of the net proceeds) will be used for increasing our production capacity of PCBA assemblies in our Luzhou Plant. We used to outsource all the assembly work of PCBAs which was one of our major products in 2015 and an important module of mobile phones since 2016. To enhance cost and production efficiency, we established our Luzhou Plant which is equipped with four SMT lines in April 2018 with an annualised production capacity of 2.5 million pieces. Due to cost efficiency, we generally produce PCBAs for smartphones rather than feature phones. In FY2018, our sales volume of smartphones was 7.1 million and we also sold a total of 1.5 million smartphone PCBAs as stand-alone products. Hence, the total volume of smartphone PCBAs we consumed in FY2018 was 8.6 million pieces. Based on the current annualised production capacity for our Luzhou Plant, we may still

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## FUTURE PLANS AND USE OF PROCEEDS

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have to outsource the assembly work for a large portion of smartphone PCBAs to EMS providers. We hence plan to utilise:

- HK\$33.8 million (RMB29.4 million) to acquire the new SMT lines for our Luzhou Plant in the first half of 2020; and

The table below sets forth number of units and estimated cost of each type of machinery and equipment to be acquired for the new SMT lines:

Type of machinery	Number of units	Estimated cost <i>RMB'000</i>
SMT mounting machine (five for each new SMT line)	10	17,681
Reflow oven	2	1,244
Solder paste printer	4	2,246
Board cutting machine	2	370
AOI machine	4	1,598
3D solder paste inspection machine	2	874
X-ray inspection machine ( <i>Note 1</i> )	1	980
Automated testing machine ( <i>Note 2</i> )	5	3,010
Ultraviolet PCB laser printer	2	660
Others ( <i>Note 3</i> )	32	720
<b>Total</b>	<b>64</b>	<b>29,383</b>

*Note:*

1. We plan to purchase one X-ray inspection machine shared by two new SMT lines.
2. We plan to purchase four comprehensive testing machines and one first-piece testing machine, which are shared by two new SMT lines.
3. Others include dispenser machine, transportation machine, steel mesh cleaning machine and air shower room.

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## FUTURE PLANS AND USE OF PROCEEDS

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- HK\$10.3 million (RMB9.0 million) to employ a total of 100 staff to support the enlarged scale of production in our Luzhou Plant from the first half of 2020;

The table below sets forth the number of the new staff to be employed for SMT operation by functions and roles:

<b>Functions and roles</b>	<b>Number of employees</b>
Solder paste printing	8
High-speed SMT mounting	8
Pre-reflow AOI	8
General SMT mounting	6
Reflow soldering	4
X-ray inspection and AOI (including x-ray sample check)	16
PCBA function testing	32
PCBA cutting	10
Warehouse and production management	8
Total	100

- (2) HK\$16.1 million (equivalent to RMB14.0 million, representing 16.8% of the net proceeds) will be used for strengthening of our R&D capabilities to enrich our product offering on both mobile phone related products and IoT related products. We plan to utilise:

- HK\$6.9 million (RMB6.0 million) to acquire various testing machines primarily for conducting R&D on (i) 5G mobile phone products which is expected to be launching in 2020 and rapidly gain popularity in the coming few years and (ii) IoT related products which become common in the PRC and worldwide; and
- HK\$9.2 million (RMB8.0 million) to employ additional 20 R&D staff in January 2020, who are expected to have more experience in R&D on electronic devices and we would prioritise to hire those with relevant master or doctor degrees and 5 years or more R&D experience in mobile phone and IoT products. We have R&D projects on IoT products since April 2017 and have commenced R&D on 5G smartphones in June 2018. As at the Latest Practicable Date, the number of our current R&D staff who are conducting R&D on IoT products and 5G mobile phones are 21 and 15, respectively. We believe these additional R&D staff are necessary for our future R&D activities based on the following reasons: (i) according to the CIC Report, more countries support 5G rollouts, the next five to 10 years will be the 5G era, and we need more talented R&D personnel to further enhance our R&D capability to speed up our R&D on 5G products; (ii) while there are about one-tenth of our current R&D staff have relevant master degrees, we consider recruiting more R&D staff with master degrees or above can enhance our R&D capability for our 5G and

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## FUTURE PLANS AND USE OF PROCEEDS

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IoT R&D tasks. Out of these 20 additional R&D staff, 10 and five staff will work on the R&D on 5G mobile phones and IoT products, respectively, while the remaining five staff will be responsible for other ancillary R&D work, such as camera modules and display modules. We believe our potential customers select ODM suppliers based on comprehensive assessments, in which the R&D capability is a critical factor that would enable us to stand out from other competitors.

(3) approximately HK\$9.8 million (equivalent to RMB8.5 million, representing 10.2% of the net proceeds) will be used for strengthening our sales and marketing force. We plan to recruit 15 sales personnel in January 2020 for such purposes and plan to take part in or attend various overseas exhibitions and trade shows to promote our products to potential new customers. We set out the detailed plan as below:

- To enhance our market penetration in India, we plan to recruit three sales personnel, who will be responsible for (i) conducting more in-depth market research into Indian mobile phone market; (ii) maintaining close communication, such as frequent after-sales follow-up calls and annual customer satisfaction surveys, to strengthen our relationship with existing Indian customers; (iii) identifying and establishing cooperation with potential customers; and (iv) taking part in Convergence India and India Mobile Congress to further enhance our company awareness in India;
- To increase our market share in China, we plan to recruit four sales personnel mainly focusing on building up business relationship with leading branded mobile phone suppliers in the PRC. They will work on the following aspects: (i) communicating with the relevant procurement staff of potential customers to understand their needs through emails, telephone calls or face-to-face meetings; (ii) discussing with our R&D team on customers' needs; and (iii) introducing our new models or designs to potential customers and collecting feedbacks;
- To broaden our customer base and geographical coverage in other emerging market countries, we plan to recruit three sales personnel, who will (i) conduct comprehensive market research into other emerging markets, in particular, South and North African markets; (ii) maintain close communication with existing customers in other emerging market countries and secure new business opportunities through their referrals; and (iii) attend Consumer Electronic Shows (CES), Mobile World Congress and Telecommunications, Computers Networks Trade Shows in Africa to identify and promote our products to potential customers;
- To promote our IoT products in China, we plan to recruit five sales personnel. As we are relatively new in the IoT market, these sales personnel will endeavor to introduce our IoT related products, such as smart locator, smart speakers and smart locks to potential customers, particularly leading telecommunication operators in China. They will also pay close attention to the new market trends, technological advances and changing customer needs of IoT products and formulate business development plan.



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## FUTURE PLANS AND USE OF PROCEEDS

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- (4) approximately HK\$6.5 million (equivalent to RMB5.6 million, representing 6.7% of the net proceeds) will be used for upgrading our computer hardware, software and ERP system to link up product design, costs and budgeting, procurement, production planning, inventory monitoring, quality control and financial reporting functions;
- (5) approximately HK\$10.0 million (equivalent to RMB8.7 million, representing 10.4% of the net proceeds) will be used for partial repayment of mortgage bank loan for our R&D centre in Shanghai in the aggregate principal sum of RMB31.2 million with 5.39% interests per annum which is to mature in 2027; as at 30 April 2019, the outstanding principal sum of the mortgage loan amounted to RMB27.4 million;
- (6) the remaining balance of HK\$9.5 million (equivalent to RMB8.3 million, representing 9.9% of the net proceeds) will be used for additional working capital and other general corporate purposes.

The above allocation of the net proceeds (except for the part of proceeds used for repaying loans) will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the indicative range of the Offer Price.

If the Offer Price is fixed HK\$0.6 per Offer Share (being the high-end of the indicative range of the Offer Price), we will receive additional net proceeds of HK\$11.6 million, assuming the Over-allotment Option is not exercised. If the Offer Price is fixed HK\$0.5 per Offer Share (being the low-end of the indicative range of the Offer Price), we will receive the net proceeds we receive will be reduced by HK\$11.6 million, assuming the Over-allotment Option is not exercised.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by it, will be approximately (i) HK\$32.6 million, assuming the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$0.6 per Share; (ii) HK\$19.2 million, assuming the Offer Price is fixed at the mid-point of the indicative range of the Offer Price, being HK\$0.55 per Share; and (iii) HK\$5.8 million, assuming the Offer Price is fixed at the low-end of the indicative range of the Offer Price, being HK\$0.5 per Share. Any additional proceeds received by us from the exercise of the Over-allotment Option will also be allocated in the proportions stated above.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

## FUTURE PLANS AND USE OF PROCEEDS

### IMPLEMENTATION PLANS

The following table sets forth our implementation plans for our business strategies from the Latest Practicable Date up to 31 December 2021:

	From the Latest Practicable Date to 31/12/2019 <i>HK\$'000</i>	From 01/01/2020 to 30/06/2020 <i>HK\$'000</i>	From 01/07/2020 to 31/12/2020 <i>HK\$'000</i>	From 01/01/2021 to 30/06/2021 <i>HK\$'000</i>	From 01/07/2021 to 31/12/2021 <i>HK\$'000</i>	Total <i>HK\$'000</i>	% of net proceeds to be applied %
Enhance SMT production capacity ( <i>Note 1</i> )	—	13,580	13,580	15,269	1,689	44,118	46.0
Enhance R&D capabilities ( <i>Note 2 and 3</i> )	—	3,640	4,140	4,640	3,720	16,140	16.8
Enhance sales and marketing force to diversify customer base	—	2,790	2,790	2,790	1,390	9,760	10.2
Upgrade ERP system	—	1,288	2,586	2,586	—	6,460	6.7
Repayment of bank loans	2,500	2,500	2,500	2,500	—	10,000	10.4
General working capital	9,509	—	—	—	—	9,509	9.9
<b>Total:</b>	<b>12,009</b>	<b>23,798</b>	<b>25,596</b>	<b>27,785</b>	<b>6,799</b>	<b>95,987</b>	<b>100.0</b>
% of net proceeds to be applied	12.5	24.8	26.7	28.9	7.1	100.0	

*Notes:*

- To enhance the SMT production capacity, we plan to equip our Luzhou Plant with two more SMT lines and employ 100 additional staff for SMT production by applying the net proceeds. The implementation plans are set out as per the schedule below:

	From the Latest Practicable Date to 31/12/2019 <i>HK\$'000</i>	From 01/01/2020 to 30/06/2020 <i>HK\$'000</i>	From 01/07/2020 to 31/12/2020 <i>HK\$'000</i>	From 01/01/2021 to 30/06/2021 <i>HK\$'000</i>	From 01/07/2021 to 31/12/2021 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Two SMT lines	—	10,132 (30% deposit)	10,132 (30% instalment payment)	11,821 (35% instalment payment)	1,689 (5% final payment)	33,774
Employment of 100 staff for SMT operation	—	3,448	3,448	3,448	—	10,344
<b>Sub-total:</b>	<b>—</b>	<b>13,580</b>	<b>13,580</b>	<b>15,269</b>	<b>1,689</b>	<b>44,118</b>

## FUTURE PLANS AND USE OF PROCEEDS

2. To enhance our R&D capabilities in respect of mobile phones and IoT related products, various equipment, machines and devices are to be equipped by applying the net proceeds. The implementation plans are set out as per the schedule below:

	<b>From the Latest Practicable Date to 31/12/2019 HK\$'000</b>	<b>From 01/01/2020 to 30/06/2020 HK\$'000</b>	<b>From 01/07/2020 to 31/12/2020 HK\$'000</b>	<b>From 01/01/2021 to 30/06/2021 HK\$'000</b>	<b>From 01/07/2021 to 31/12/2021 HK\$'000</b>	<b>Total HK\$'000</b>
Equipment, machines and devices for R&D ( <i>Note</i> )	—	1,000	1,500	2,000	2,400	6,900
Employment of 20 staff for R&D	—	2,640	2,640	2,640	1,320	9,240
<b>Sub-total:</b>	<b>—</b>	<b>3,640</b>	<b>4,140</b>	<b>4,640</b>	<b>3,720</b>	<b>16,140</b>

*Note:*

<b>List of equipment/devices and functions</b>	<b>Number of sets</b>
• Design applications for mobile or wireless device	2
• Active high speed probes for digital system and component design	2
• Passive probe for densely populated IC components or surface-mount devices	2
• Testing machine and devices for wireless and battery power (6 sets), electronic voltage (1 set), lightning surge proof (1 set), waterproof (1 set), durability (1 set) and electromagnetic vibration (1 set)	11
• Wideband radio communication tester for wireless devices (5G)	1
• Spectrum analyser (1 set) and audio analyser (1 set)	2
• Advanced communication quality analysis system	1
• Anechoic chamber (2 sets), thermal shock chamber (1 set), humidity chamber (2 sets) and sand and dust testing chamber (1 set)	6
• Switching amplifier measurement filters	1
• Studio monitors	2

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## FUTURE PLANS AND USE OF PROCEEDS

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3. The below table sets out our plan and timeframe for R&D development of 5G mobile phones and the type of machines to be acquired for such R&D activities:

Timeframe	R&D plan	Machines
From June 2018 to August 2019	R&D on the material and design of antennas required for 5G frequency range, which is the core R&D step for 5G mobile phones	— Testing machine and devices for wireless and battery power, electronic voltage, waterproof and electromagnetic vibration;
From August 2019 to December 2019	R&D on the radio frequency modules to be imbedded on the PCBAs for 5G mobile phones, which is responsible for the transmission and reception of radio frequency	— Active high speed probes for digital system and component design; — Passive probe for densely populated IC components or surface-mount devices;
From December 2019 to February 2020	Conducting tests on the functionality and compatibility of various mobile chips, such as CPUs and memory, and select the mobile chips of the best combination from different suppliers	— Wideband radio communication tester for wireless devices; — Spectrum analyser; — Advanced communication quality analysis system;
From February 2020 to March 2020	Software development and design of the PCBA layout to optimise the performance of hardware and software in 5G mobile phones	— Anechoic chamber; — Switching amplifier measurement filters; and
From April 2020 to July 2020	Industrial and mechanical design of 5G mobile phones	— Design applications for mobile phones and wireless

According to the CIC Report, 5G is expected to be widely applied in commercial field from 2020 onwards, with the number of installed bases for 5G smartphones projected to be increased considerably. The number of installed bases for 5G smartphones, worldwide and in China, are expected to reach 322.5 million and 129.0 million, respectively, by 2023. Also according to the CIC Report, top four smartphone brand owners in the PRC plan to launch their first 5G mobile phones in 2019. Since March 2019, China Mobile Group has posted two batches of public tender invitations for 5G trial smartphone projects.

Foreseeing the market demand of the 5G mobile phones, our Group has been promoting our future 5G mobile phones to both existing and potential customers. For the existing customers who have purchased 2G, 3G and 4G mobile phones from us, we have been trying to understand their future plans of product development, and their intention and timeframes of launching 5G mobile phones and update them of our latest R&D progress on 5G mobile phones from time to time. We have recently received a request for the design and develop 5G mobile phone model from Lava and a tender invitation for 5G mobile phones from one of our customers who is a well-established branded mobile phone supplier in the PRC. We believe, based on our good business relationship with these customers, it is very likely that they would place orders with us as long as we are able to provide the 5G mobile phone models meeting their requirements and product specifications. For the potential customers, we gather information about their 5G plans through market researches and communications with their management teams and would prioritise to build up relationship with those who have 5G plans. We will also pursue business opportunities for our 5G mobile phones through participating or attending worldwide telecommunication exhibitions, such as Consumer Electronic Shows (CES) and Mobile World Congress and Telecommunications, as well as press conferences arranged by major mobile phone brands for the launch of their 5G smartphones.

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## FUTURE PLANS AND USE OF PROCEEDS

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The table below sets out the type of IoT related products to be develop and the type of machines to be acquired for such R&D activities:

Types of IoT related products	Description/usage	Machines
Tracker series	To be carried by the elderly, children or pets to prevent getting lost with real-time reporting position	— Testing machine and devices for waterproof, lightning surge proof durability and electromagnetic vibration;
Sensors series	To be applied to warehouses and various equipment for various industrial use, such as hydraulic sensors and gas pressure detector	— Studio monitors; — Audio analyser; — Anechoic chamber;
Vehicle terminal series	To be installed in the vehicles to attain the remote control by the vehicle owners and/or enhance the driving safety through recording driving route and speed, monitoring driver's activities and distance warning and lane departure warning	— Thermal shock chamber; — Humidity chamber; and — Sand and dust testing chamber
Smart study machine	To search the answers to the questions provided by the users who are mainly students verbally or by photography and respond	
Smart payment and advertising terminal series	To process payments after face/code gun scanning and/or display different advertisements	

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

**Dakin Securities Limited**

**Head & Shoulders Securities Limited**

**CCB International Capital Limited**

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### **Hong Kong Public Offering**

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

#### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters) has the right, in their joint and absolute discretion, to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement if they see fit upon the occurrence of any of the following events:

- (a) there has developed, occurred, existed or come to the notice of the Joint Global Coordinators that:
  - (i) any statement contained in this prospectus, the Application Forms or any other relevant documents issued or used in connection with the Global Offering (“**Offer Documents**”) considered by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) in their joint and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the joint and absolute opinion of the Joint Global Coordinators, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

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## UNDERWRITING

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- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their joint and absolute opinion to be material in the context of the Global Offering; or
- (iii) any of the representations and warranties given by our Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) in their joint and absolute opinion to be material in the context of the Global Offering; or
- (iv) any breach of any of the obligations or undertakings imposed upon any party to any of the Underwriting Agreements (in each case, other than on the part of any of the Joint Global Coordinators or the Underwriters); or
- (v) any adverse material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospect of any member of our Group; or
- (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) the Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of our Group pursuant to the indemnities given by us; or
- (ix) any person (other than the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or



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## UNDERWRITING

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- (xi) an authority or a political body or organization in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors; or
  - (xii) a portion of the orders in the bookbuilding process, which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) in their absolute opinion to be material, at the time the International Underwriting Agreement is entered into, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators, in their joint and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting China, Hong Kong, Macau, the Cayman Islands, the BVI, the United States, the United Kingdom, Canada, the European Union (or any member thereof), Japan, Singapore, India or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or
  - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
  - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation SARS and Influenza A (H5N1)) in or affecting any of the Relevant Jurisdictions; or
  - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, or (B) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) any material adverse change or development or event involving a prospective material adverse change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or
- (xi) a valid demand by any creditor for repayment or payment of any of the Company's indebtedness or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xii) any material litigation or claim being threatened or instigated or any indictable offence being charged against our Company or any of our subsidiaries, any Directors or the Controlling Shareholders; or

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## UNDERWRITING

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- (xiii) a material contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other laws applicable to the Global Offering;
  - (xiv) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors” in this prospectus; or
  - (xv) the chairman or chief executive officer of our Company vacating his or her office; or
  - (xvi) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or Shares from the exercise of the Over-allotment Option pursuant to the terms of the Global Offering; or
  - (xvii) material non-compliance of the Prospectus and the other Offer Documents or any aspect of the Global Offering with the Listing Rules or any other laws applicable to the Global Offering; or
  - (xviii) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of a supplement or amendment to the Prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC,
- and which, in any of the above cases individually or in aggregate in the joint and absolute opinion of Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):
- (a) has, or is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or our subsidiaries as a whole; or
  - (b) has or may have or will have or is likely to have an adverse effect on the marketing for or the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Underwriting Agreements, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
  - (c) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
  - (d) has or will or may have the effect of making any part of the Underwriting Agreements (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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## UNDERWRITING

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### Undertakings to the Stock Exchange under the Listing Rules

#### *By us*

We have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) without the prior consent of the Stock Exchange, except in the circumstances prescribed by Rule 10.08 of the Listing Rules.

#### *By Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Global Offering, the Over-allotment Option and/or if the applicable, the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) at any time within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; or
- (b) at any time during the six-month period commencing on the date on which the period mentioned in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder(s).

Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he or it pledges or charges any Shares or other securities of our Company beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he or it receives any indications, either verbal or written, from any pledgee or charge that any of the pledged or charged Shares or securities will be disposed of, immediately inform us of any such indications.

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## UNDERWRITING

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We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***By us***

We have undertaken to each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Capitalisation Issue, the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, we will not, and will procure that our subsidiaries will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-month Period**”):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its shares or share capital or other securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such shares or share capital or securities or any interest therein);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of or other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable);
- (c) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of shares or share capital or such other securities, in cash or otherwise, and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the First Six-month Period (the “**Second Six-month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of our Company.

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## UNDERWRITING

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### *By our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Sole Sponsor, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and/or if applicable, the Stock Borrowing Agreement, it will not, and will procure that none of its controlled entities will, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), at any time during the First Six-month Period:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now owned or hereinafter acquired, directly or indirectly, by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of or other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other members of our Group, as applicable);
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or publicly announce any intention to enter into or effect any transaction described in paragraph (a) or (b) or (c) above, whether any such transaction described in paragraph (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

In addition, during the Second Six-month Period, each of our Controlling Shareholders will not enter into any of the foregoing transactions described in (a), (b), (c) or (d) if, immediately following such transaction, it will cease to be a Controlling Shareholder of our Company or would together with the other Controlling Shareholders cease to be Controlling Shareholders of our Company.

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## UNDERWRITING

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Until the expiry of the Second Six-month Period, in the event that any of our Controlling Shareholders enters into any of the foregoing transactions described in (a), (b), (c) or (d), it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.

Each of our Controlling Shareholders has further undertaken to our Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Lead Managers and the Hong Kong Underwriters that it will, at any time before the expiry of the Second Six-month Period:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any share capital or other securities of our Company or any interests therein in respect of which it is the beneficial owner, immediately inform our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in writing of such pledge or charge together with the number of Shares or other securities so pledged or charged; and
- (b) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged shares or securities or interests in the shares or other securities of our Company will be disposed of, immediately inform our Company, the Joint Global Coordinators and the Joint Lead Managers (for themselves and on behalf of the other Hong Kong Underwriters) in writing of such indications.

Our Company will inform the Stock Exchange, the Sole Sponsor, the Joint Global Coordinators and the Joint Lead Managers in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Each of our Company and our Controlling Shareholders agrees and undertakes that it will not, and each Controlling Shareholder further undertakes to procure that Company will not, effect any transactions of Shares, or agree to do so, which may reduce the holdings of Shares of persons other than the Directors, chief executives, substantial shareholders or their respective associates to below 25% within the First Six Months Period without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

*By JZ Capital, Mr. Ko Hin Ting, James, and Mr. Lee Shun Hing, Jimmy*

Each of JZ Capital, Mr. Ko Hin Ting, James, and Mr. Lee Shun Hing, Jimmy (the “**Undersigned Shareholder(s)**”) has undertaken to each of our Company, the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters that without the prior written consent of the Company, it shall not and shall procure that the relevant registered holder(s) shall not at any time within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any



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## UNDERWRITING

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options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners. Such restrictions shall not apply to, among others:

- (a) any charge, mortgage or pledge by Undersigned Shareholders of the Shares during the 12 months period in favor of a financial institution to secure a loan or financing facility made to the Undersigned Shareholders (the “**Loan**”) if the person making the Loan undertakes to be bound by the restrictions on disposal herein during the 12 months period and which restrictions shall include any disposal of the Shares on exercise of any enforcement action or foreclosure following a default under the Loan; or
- (b) any transfer with the prior written consent of the Company, having due regard to the requirements of the Stock Exchange on lock-up of pre-IPO investors (as the case may be); or
- (c) any Shares acquired in open market transactions after the completion of the Global Offering; or
- (d) any transfers to any of the Undersigned Shareholders’ affiliates, provided that, prior to such transfer, such affiliates gives a written undertaking (addressed to and in favor of the Company in terms satisfactory to them and substantially the same as the Undersigned Shareholders’ deed of lock-up undertaking) agreeing to, and the Undersigned Shareholders undertake to procure that such affiliates will, be bound by the undertaking.

### **International Placing**

In connection with the International Placing, it is expected that our Company, will enter into the International Underwriting Agreement with, *inter alia*, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to subscribe or procure subscribers for the International Placing Shares being offered pursuant to the International Placing.

Our Company is expected to grant to the Joint Global Coordinators the Over-allotment Option, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging applications under the Hong Kong Public Offering to require our Company to allot and issue up to an aggregate of 37,500,000 additional new Shares, representing 15% of the initial Offer Shares in aggregate, at the same price per Share under the International Placing to cover over-allocations (if any) in the International Placing.

### **Commission and expenses**

The Underwriters will receive an underwriting commission of 5.0% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission will be paid.

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## UNDERWRITING

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The underwriting commissions (excluding any incentive fee), listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and other expenses relating to the Global Offering which are estimated to be approximately HK\$41.5 million in aggregate (assuming (i) an Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus); (ii) the Over-allotment Option is not exercised), are payable and borne by our Company in respect of the new Shares.

### **Indemnity**

Our Company has agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### **Activities by Syndicate members**

Set out below is a variety of activities that the Underwriters of the Hong Kong Public Offering and the International Placing, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilising process. It should be noted that when engaging in any these activities the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, none of the Underwriters (except for the Joint Global Coordinators, their affiliate(s) or any person(s) acting for it for the purpose of taking any stabilising action) will, and each of the Underwriters will procure that none of its respective affiliates and agents will, in connection with the distribution of the Offer Shares, effect, cause or authorise any other person to effect any transactions including, but not limited to issuing options or derivatives on the underlying Shares (whether in the open market or otherwise and whether in Hong Kong or elsewhere) with a view to stabilising or maintaining the market price of any of the Shares at a level higher than that which might otherwise prevail in the open market or any action which is designed to or which constitutes or which might be expected to, cause or result in the stabilisation or manipulation, in violation of applicable laws, of the price of any security of the Company; and
- (b) none of the Underwriters (other than the Joint Global Coordinators or their affiliate(s) or any other person(s) acting for it for the purpose of taking any stabilising action), will, during the period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, issue any warrant, option or derivative on the underlying Shares (whether in the open market or otherwise), except with the prior written consent of the Joint Global Coordinators.

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## UNDERWRITING

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The Syndicate Members and their affiliates are diversified financial institutions engaging in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares and entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described under the paragraphs headed “Over-allotment Option” and “Stabilisation actions” in “Structure and conditions of the Global Offering — Over-allocation and Stabilisation” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares and their share price, and the extent to which this occurs from day to day cannot be estimated.

### **Underwriters’ interests in our Company**

Save for their obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in our Company nor any interest in the Global Offering.

### **Sole Sponsor’s Independence**

Dakin Capital satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. Dakin Capital is the Sole Sponsor for the listing of the Shares on the Stock Exchange.

The Global Offering initially consists of (subject to the Over-allotment Option):

- (i) the Hong Kong Public Offering of 25,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described in “Hong Kong Public Offering” in this section below; and
- (ii) the International Placing of 225,000,000 Offer Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Public Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Placing respectively may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as set out in “International Placing — Over-allotment Option” in this section.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarized in “Underwriting” in this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and any options which may be granted under Share Option Scheme;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Tuesday, 5 November 2019 and in any event, not later than Monday, 11 November 2019.

**If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company by Monday, 11 November 2019, the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.sprocomm.com](http://www.sprocomm.com) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to apply for the Hong Kong Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**Share certificates for the Offer Shares are expected to be issued on Tuesday, 12 November 2019 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 13 November 2019 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.**

### HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 25,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the International Placing; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Public Offer Shares will represent approximately 2.5% of our Company’s issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “Conditions of the Global Offering” in this section.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Public Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Public Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 12,500,000 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares) are liable to be rejected.

### **Reallocation**

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment reallocation at the discretion of the Joint Global Coordinators, subject to the following:

- (a) where the International Placing Shares are fully subscribed or oversubscribed:
  - (i) if the Hong Kong Public Offer Shares are undersubscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deems appropriate;
  - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 50,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (A) 15 times or more but less than 50 times; (B) 50 times or more but less than 100 times; and (C) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 75,000,000 Offer Shares (in the case of (A)), 100,000,000 Offer Shares (in the case of (B)) and 125,000,000 Offer Shares (in the case of (C)) representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;
- (b) where the International Placing Shares are undersubscribed:
  - (i) if the Hong Kong Public Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus, the Application Forms and the Underwriting Agreements; and
  - (ii) if the Hong Kong Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 50,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$0.5 per Offer Share) according to Guidance Letter HKEx-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

### **Applications**

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$0.6 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Price determination of the Global Offering" in this section, is less than the maximum price of HK\$0.6 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to apply for the Hong Kong Public Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### INTERNATIONAL PLACING

#### Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the International Placing will be 225,000,000 new Shares, representing 90% of the total number of the Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering assuming the Over-allotment Option is not exercised.

The International Placing is subject to the same conditions as stated in "Conditions of the Global Offering" in this section.

#### Allocation

The International Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process described in “Price determination of the Global Offering” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Joint Global Coordinators (on behalf of International Underwriters) that exercisable at the sole discretion of the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Joint Global Coordinators has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 37,500,000 additional new Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Placing to cover over-allocation in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

### **PRICE DETERMINATION OF THE GLOBAL OFFERING**

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Tuesday, 5 November 2019, and in any event on or before Monday, 11 November 2019, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.6 per Share and is expected to be not less than HK\$0.5 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.sprocomm.com](http://www.sprocomm.com) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. We will also issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Upon issue of such a notice and supplemental prospectus, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Tuesday, 12 November 2019 in the manner set out in “How to apply for the Hong Kong Public Offer Shares — Results of allocation” in this prospectus.

### STABILISATION ACTIONS

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Head & Shoulders Securities has been appointed by us as the stabilising manager (“**Stabilising Manager**”) for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on the date which is the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Joint Global Coordinators and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 37,500,000 Shares in aggregate, which is approximately 15% of the Shares initially available under the Global Offering.

Stabilising Manager, its affiliates or any person acting for it, may take all or any of the following stabilising action in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (ii) in connection with any action described in paragraph (i) above;
  - (a) (1) over-allocation; or
    - (2) selling or agreeing to sell the Shares so as to establish a short position in them, for the purpose of preventing or minimising any reduction in the market price of the Shares;
  - (b) exercise the Over-allotment Option and subscribe for, or agreeing to subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) above;
  - (c) sell or agree to sell any Shares by it in the course of the stabilising action in order to liquidate any position that has been established by such actions; and
  - (d) offer or attempt to do anything described in (a)(2), (b) and (c) above.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position; Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the date which is the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Joint Global Coordinators may borrow up to 37,500,000 Shares from Leap Elite, equivalent to the maximum number of Shares to be issued by our Company on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Listing Rules.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 13 November 2019, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:30 a.m. on Wednesday, 13 November 2019, and will be traded in board lots of 20,000 Shares.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form service** at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form service** Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form service**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form service** for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 30 October 2019 until 12:00 noon on Monday, 4 November 2019 from:

- (i) any of the following addresses of the Joint Global Coordinators:

<b>Dakin Securities Limited</b>	Suite 3509, 35/F Tower 2, Lippo Centre 89 Queensway Hong Kong
<b>Head &amp; Shoulders Securities Limited</b>	Room 2511 25/F Cosco Tower 183 Queen's Road Central Hong Kong
<b>CCB International Capital Limited</b>	12/F, CCB Tower 3 Connaught Road Central Central Hong Kong

- (ii) any of the following branches of Bank of China (Hong Kong) Limited:

<b>District</b>	<b>Branch</b>	<b>Address</b>
Hong Kong Island	Wan Chai (Wu Chung House) Branch	213 Queen's Road East Wan Chai Hong Kong
Kowloon	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza 68 Hoi Yuen Road Kwun Tong Kowloon
New Territories	Kwai Chung Plaza Branch	A18-20 G/F Kwai Chung Plaza 7-11 Kwai Foo Road Kwai Chung New Territories

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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You can collect a **YELLOW** Application Form and a copy of the prospectus during normal business hours from 9:00 a.m. on Wednesday, 30 October 2019 until 12:00 noon on Monday, 4 November 2019, from the **Depository Counter of HKSCC** at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or from your stockbroker.

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to **BANK OF CHINA (HONG KONG) NOMINEES LIMITED — SPROCOMM INTELLIGENCE PUBLIC OFFER** for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Wednesday, 30 October 2019	—	9:00 a.m. to 5:00 p.m.
Thursday, 31 October 2019	—	9:00 a.m. to 5:00 p.m.
Friday, 1 November 2019	—	9:00 a.m. to 5:00 p.m.
Saturday, 2 November 2019	—	9:00 a.m. to 1:00 p.m.
Monday, 4 November 2019	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 4 November, the last application day or such later time as described in “10. Effect of bad weather and/or extreme conditions on the opening of the applications lists” in this section.

## 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form service**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form service** provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in "Who can apply" section, may apply through the **HK eIPO White Form service** for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form service** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form Service Provider** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form service**.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 30 October 2019 until 12:00 noon on Monday, 4 November 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 4 November 2019 or such later time under the “10. Effect of bad weather and/or extreme conditions on the opening of the applications lists” in this section.

### No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form service** to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form service** or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

**Customer Service Centre**

1/F, One & Two Exchange Square

8 Connaught Place

Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;



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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 20,000 Hong Kong Public Offer Shares. Instructions for more than 20,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions <sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 30 October 2019	—	9:00 a.m. to 8:30 p.m.
Thursday, 31 October 2019	—	8:00 a.m. to 8:30 p.m.
Friday, 1 November 2019	—	8:00 a.m. to 8:30 p.m.
Saturday, 2 November 2019	—	8:00 a.m. to 1:00 p.m.
Monday, 4 November 2019	—	8:00 a.m. to 12:00 noon

*Note:*

1. These times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 30 October 2019 until 12:00 noon on Monday, 4 November 2019 (24 hours daily, except on Monday, 4 November 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon, on Monday, 4 November 2019, the last application day or such later time as described in “10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this section.

### **No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form service** is also only a facility provided by the **HK eIPO White Form Service Provider** to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Sole Sponsor, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form service** will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/ CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 4 November 2019.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form service**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form service** in respect of a minimum of 20,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 20,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see “Structure of the Global Offering — Pricing and allocation” in this prospectus.

### 10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if:

- a tropical cyclone warning signal number 8 or above;
- “extreme conditions” caused by a super typhoon; or
- a “black” rainstorm warning,

is/are in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 4 November 2019. Instead they will open between 9:00 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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If the application lists do not open and close on Monday, 4 November 2019 or if a tropical cyclone warning signal number 8 or “extreme conditions” caused by a super typhoon or above or a “black” rainstorm warning signal is/are in force in Hong Kong that may affect the dates mentioned in “Expected timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Tuesday, 12 November 2019 on the Company’s website at [www.sprocomm.com](http://www.sprocomm.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.sprocomm.com](http://www.sprocomm.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, 12 November 2019;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) (alternatively: [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult)) or “Allotment Result” function in the **IPO App** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 12 November 2019 to 12:00 midnight on Monday, 18 November 2019;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 12 November 2019 to Friday, 15 November 2019;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 12 November 2019 to Thursday, 14 November 2019 at all the receiving bank’s designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.



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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form service** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.6 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 12 November 2019.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 12 November 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 13 November 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### Personal Collection

#### *(i) If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. and 1:00 p.m. on Tuesday, 12 November 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 12 November 2019, by ordinary post and at your own risk.

#### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 12 November 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 12 November 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 12 November 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 November 2019, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 12 November 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 12 November 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, 12 November 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before Tuesday, 12 November 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 12 November 2019. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 12 November 2019.

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## HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report, received from the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the Directors of the Company and to Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Report on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SPROCComm INTELLIGENCE LIMITED AND DAKIN CAPITAL LIMITED

### INTRODUCTION

We report on the historical financial information of Sprocomm Intelligence Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-83, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019, statements of financial position of the Company as at 31 December 2018 and 30 April 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the three years ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019 (the “**Track Record Period**”) and a summary of significant policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information are set out on pages I-4 to I-83 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 October 2019 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

### DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risk of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OPINION

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 April 2019, the Company's financial position as at 31 December 2018 and 30 April 2019 and the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

## REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the four months ended 30 April 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE****ADJUSTMENTS**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**DIVIDENDS**

We refer to Note 14 to the Historical Financial Information which contains information about the dividends paid by the Company's subsidiaries and states that no dividend has been paid by the Company in respect of the Track Record Period.

**NO HISTORICAL FINANCIAL STATEMENTS FOR THE COMPANY**

No statutory financial statements have been prepared for the Company since its date of incorporation.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Wong Chuen Fai**

Practising Certificate Number: P05589

Hong Kong

30 October 2019

**A. HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Four months ended 30 April	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (Unaudited)	2019 RMB'000
Revenue	6	2,171,867	2,889,658	2,943,724	665,684	744,303
Cost of sales		<u>(2,006,230)</u>	<u>(2,648,995)</u>	<u>(2,680,527)</u>	<u>(606,339)</u>	<u>(676,304)</u>
Gross profit		165,637	240,663	263,197	59,345	67,999
Other gains and income	8	13,087	10,151	27,792	5,480	15,982
Selling expenses		(21,639)	(49,688)	(50,351)	(9,908)	(11,007)
Administrative and other expenses		(32,433)	(58,766)	(64,700)	(17,167)	(24,627)
Research and development expenses		(78,801)	(102,757)	(105,396)	(22,229)	(25,725)
Finance costs	9	<u>(1,400)</u>	<u>(7,459)</u>	<u>(15,884)</u>	<u>(3,000)</u>	<u>(5,100)</u>
Profit before tax		44,451	32,144	54,658	12,521	17,522
Income tax expenses	10	<u>(1,756)</u>	<u>(65)</u>	<u>(10,707)</u>	<u>(1,414)</u>	<u>(3,485)</u>
Profit for the year/period	11	42,695	32,079	43,951	11,107	14,037
Other comprehensive income (expense) for the year/period:						
<i>Item that may be reclassified subsequently to profit or loss</i>						
Exchange difference arising on translating foreign operations		<u>4,198</u>	<u>(11,402)</u>	<u>(1,032)</u>	<u>162</u>	<u>433</u>
Total comprehensive income for the year/period		<u>46,893</u>	<u>20,677</u>	<u>42,919</u>	<u>11,269</u>	<u>14,470</u>
Profit (loss) attributable to:						
Owners of the Company		42,729	32,674	45,393	11,683	14,641
Non-controlling interests		<u>(34)</u>	<u>(595)</u>	<u>(1,442)</u>	<u>(576)</u>	<u>(604)</u>
		<u>42,695</u>	<u>32,079</u>	<u>43,951</u>	<u>11,107</u>	<u>14,037</u>
Total comprehensive income (expenses) attributable to:						
Owners of the Company		46,928	21,271	44,358	11,847	15,073
Non-controlling interests		<u>(35)</u>	<u>(594)</u>	<u>(1,439)</u>	<u>(578)</u>	<u>(603)</u>
		<u>46,893</u>	<u>20,677</u>	<u>42,919</u>	<u>11,269</u>	<u>14,470</u>
Earnings per share						
Basic and diluted (RMB cents)	15	<u>31.61</u>	<u>19.96</u>	<u>6.67</u>	<u>1.81</u>	<u>1.95</u>

## STATEMENTS OF FINANCIAL POSITION

	Notes	The Group			The Company		
		As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 30 April 2019 RMB'000	As at 31 December 2018 RMB'000	As at 30 April 2019 RMB'000
<b>Non-current Assets</b>							
Investment in a subsidiary	40	—	—	—	—	*—	*—
Property, plant and equipment	16	22,566	80,207	131,351	126,569	—	—
Right-of-use assets	17	—	—	—	14,180	—	—
Intangible assets	18	4,432	5,255	5,186	5,013	—	—
Deferred tax asset	31	752	1,453	439	369	—	—
		<u>27,750</u>	<u>86,915</u>	<u>136,976</u>	<u>146,131</u>	<u>—</u>	<u>—</u>
<b>Current Assets</b>							
Inventories	19	140,748	356,947	184,292	123,550	—	—
Trade and bills receivables	20	274,612	244,668	417,066	524,093	—	—
Financial assets at fair value through profit or loss	23	47,990	79,420	295,480	316,170	—	—
Prepayments and other receivables	21	93,162	77,294	74,770	47,484	1,719	3,875
Amount due from a related company	22	—	7,900	—	—	—	—
Amount due from a shareholder	22	900	563	1,076	1,072	—	—
Amount due from non-controlling shareholder of a subsidiary	22	—	5,625	—	—	—	—
Pledged bank deposits	24	—	14,340	24,639	64,273	—	—
Bank balances and cash	25	91,826	68,830	56,118	49,799	88	74
		<u>649,238</u>	<u>855,587</u>	<u>1,053,441</u>	<u>1,126,441</u>	<u>1,807</u>	<u>3,949</u>
<b>Current Liabilities</b>							
Trade and bills payables	26	231,042	487,979	646,529	670,186	—	—
Accruals and other payables	27	85,342	110,679	106,817	86,062	439	1,719
Contract liabilities	27	43,688	7,449	109,138	32,018	—	—
Borrowings	28	245,772	194,444	95,509	223,994	—	—
Amounts due to subsidiaries	29	—	—	—	—	7,511	15,459
Amount due to a related company	22	3,345	—	—	—	—	—
Lease liabilities	17	—	—	—	7,424	—	—
Deferred income	30	—	—	6,609	6,609	—	—
Income tax payable		1,158	807	2,310	3,892	—	—
		<u>610,347</u>	<u>801,358</u>	<u>966,912</u>	<u>1,030,185</u>	<u>7,950</u>	<u>17,178</u>
<b>Net current assets (liabilities)</b>		<u>38,891</u>	<u>54,229</u>	<u>86,529</u>	<u>96,256</u>	<u>(6,143)</u>	<u>(13,229)</u>
<b>Total assets less current liabilities</b>		<u>66,641</u>	<u>141,144</u>	<u>223,505</u>	<u>242,387</u>	<u>(6,143)</u>	<u>(13,229)</u>

\* Represents amount less than RMB1,000

	<i>Notes</i>	The Group			The Company		
		As at 31 December			As at	As at 31	As at
		2016	2017	2018	30 April	December	30 April
		2019	2018	2019	2019	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Capital and Reserves</b>							
Paid-in capital/Share capital	32	11,500	50,000	5	5	5	5
Reserves	33	<u>55,176</u>	<u>57,947</u>	<u>160,300</u>	<u>175,373</u>	<u>(6,148)</u>	<u>(13,234)</u>
Equity attributable to owners of the Company		66,676	107,947	160,305	175,378	(6,143)	(13,229)
Non-controlling interests	34	<u>(35)</u>	<u>4,996</u>	<u>3,557</u>	<u>2,954</u>	<u>—</u>	<u>—</u>
<b>Total Equity (Deficiency in Equity)</b>		<u>66,641</u>	<u>112,943</u>	<u>163,862</u>	<u>178,332</u>	<u>(6,143)</u>	<u>(13,229)</u>
<b>Non-current liabilities</b>							
Deferred income	30	—	—	26,706	24,503	—	—
Deferred tax liability	31	—	—	7,785	8,860	—	—
Lease liabilities	17	—	—	—	6,302	—	—
Borrowings	28	<u>—</u>	<u>28,201</u>	<u>25,152</u>	<u>24,390</u>	<u>—</u>	<u>—</u>
		<u>—</u>	<u>28,201</u>	<u>59,643</u>	<u>64,055</u>	<u>—</u>	<u>—</u>
		<u>66,641</u>	<u>141,144</u>	<u>223,505</u>	<u>242,387</u>	<u>(6,143)</u>	<u>(13,229)</u>



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Non-controlling interest RMB'000	Total RMB'000	
	Paid-in capital/ Share capital RMB'000 (Note 32)	Statutory reserve RMB'000 (Note 33(i))	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000				
At 1 January 2016	10,000	—	—	8,248	18,248	—	18,248		
Profit (loss) for the year	—	—	—	42,729	42,729	(34)	42,695		
Exchange difference arising on translation of foreign operations	—	—	4,199	—	4,199	(1)	4,198		
Total comprehensive income (expense) for the year	—	—	4,199	42,729	46,928	(35)	46,893		
Establishment of Guizhou Mars Exploration Technology Co., Ltd ("Guizhou Mars")	1,500	—	—	—	1,500	—	1,500		
Appropriation to statutory reserve	—	835	—	(835)	—	—	—		
At 31 December 2016	11,500	835	4,199	50,142	66,676	(35)	66,641		
	Paid-in capital/ Share capital RMB'000 (Note 32)	Statutory reserve RMB'000 (Note 33(i))	Translation reserve RMB'000	Merger reserve RMB'000 (Note 33(ii))	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000	
1 January 2017	11,500	835	4,199	—	50,142	66,676	(35)	66,641	
Profit (loss) for the year	—	—	—	—	32,674	32,674	(595)	32,079	
Exchange difference arising on translating foreign operations	—	—	(11,403)	—	—	(11,403)	1	(11,402)	
Total comprehensive (expense) income for the year	—	—	(11,403)	—	32,674	21,271	(594)	20,677	
Capital injection from the controlling shareholders	40,000	—	—	—	—	40,000	—	40,000	
Incorporation of subsidiary with non-controlling interest	—	—	—	—	—	—	5,625	5,625	
Arising from reorganisation of the Group (Note 32)	(1,500)	—	—	1,500	—	—	—	—	
Appropriation to statutory reserve	—	9,828	—	—	(9,828)	—	—	—	
Dividend recognised as distribution (Note 14)	—	—	—	—	(20,000)	(20,000)	—	(20,000)	
At 31 December 2017	50,000	10,663	(7,204)	1,500	52,988	107,947	4,996	112,943	
	Paid-in capital/ Share capital RMB'000 (Note 32)	Statutory reserve RMB'000 (Note 33(i))	Translation reserve RMB'000	Merger reserve RMB'000 (Note 33(ii))	Capital reserve RMB'000 (Note 33(iii))	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	50,000	10,663	(7,204)	1,500	—	52,988	107,947	4,996	112,943
Change in accounting policy	—	—	—	—	—	(206)	(206)	—	(206)
At 1 January 2018 (Restated)	50,000	10,663	(7,204)	1,500	—	52,782	107,741	4,996	112,737
Profit (loss) for the year	—	—	—	—	—	45,393	45,393	(1,442)	43,951
Exchange difference arising on translating foreign operations	—	—	(1,035)	—	—	—	(1,035)	3	(1,032)
Total comprehensive (expense) income for the year	—	—	(1,035)	—	—	45,393	44,358	(1,439)	42,919
Capital injection from the then shareholder of a subsidiary	5,556	—	—	—	2,645	—	8,201	—	8,201
Issue of shares of the Company	5	—	—	—	—	—	5	—	5
Arising from Reorganisation (Note 32&33(iii))	(55,556)	—	—	(28,244)	83,800	—	—	—	—
Appropriation to statutory reserve	—	258	—	—	—	(258)	—	—	—
At 31 December 2018	5	10,921	(8,239)	(26,744)	86,445	97,917	160,305	3,557	163,862

	Attributable to owners of the Company							Non-controlling interests	Total
	Paid-in capital/	Statutory reserve	Translation reserve	Merger reserve	Capital reserve	Retained profits	Sub-total		
	Share capital/ RMB'000 (Note 32)	RMB'000 (Note 33(i))	RMB'000	RMB'000 (Note 33(ii))	RMB'000 (Note 33(iii))	RMB'000	RMB'000		
At 1 January 2019	5	10,921	(8,239)	(26,744)	86,445	97,917	160,305	3,557	163,862
Profit (loss) for the period	—	—	—	—	—	14,641	14,641	(604)	14,037
Exchange difference arising on translating a foreign operation	—	—	432	—	—	—	432	1	433
Total comprehensive income (expenses) for the period	—	—	432	—	—	14,641	15,073	(603)	14,470
At 30 April 2019	5	10,921	(7,807)	(26,744)	86,445	112,558	175,378	2,954	178,332

	Attributable to owners of the Company							Non-controlling interests	Total
	Paid-in capital/	Statutory reserve	Translation reserve	Merger reserve	Capital reserve	Retained profits	Sub-total		
	Share capital/ RMB'000 (Note 32)	RMB'000 (Note 33(i))	RMB'000	RMB'000 (Note 33(ii))	RMB'000 (Note 33(iii))	RMB'000	RMB'000		
At 31 December 2017	50,000	10,663	(7,204)	1,500	—	52,988	107,947	4,996	112,943
Change in accounting policy	—	—	—	—	—	(206)	(206)	—	(206)
At 1 January 2018 (Restated)	50,000	10,663	(7,204)	1,500	—	52,782	107,741	4,996	112,737
Profit (loss) for the period (unaudited)	—	—	—	—	—	11,683	11,683	(576)	11,107
Exchange difference arising on translating a foreign operation	—	—	164	—	—	—	164	(2)	162
Total comprehensive income (expenses) for the period (Unaudited)	—	—	164	—	—	11,683	11,847	(578)	11,269
At 30 April 2018 (Unaudited)	50,000	10,663	(7,040)	1,500	—	64,465	119,588	4,418	124,006

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Four months ended	
	2016	2017	2018	30 April	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
<b>OPERATING ACTIVITIES</b>					
Profit before tax	44,451	32,144	54,658	12,521	17,522
Adjustments for:					
Finance costs	1,400	7,459	15,884	3,000	5,100
Government subsidies received	(6,978)	(9,104)	(16,778)	(3,397)	(8,200)
Amortisation of government grant	—	—	(4,866)	(282)	(2,203)
Bank interest income	(117)	(47)	(520)	(23)	(517)
Loss (gain) on disposal of property, plant and equipment	—	42	181	—	(6)
Written off of property, plant and equipment	4	15	77	—	—
Amortisation of intangible assets	324	565	655	213	231
Loss allowance recognised in respect of trade and bills receivables	—	—	821	155	380
Depreciation of property, plant and equipment	3,656	8,485	14,770	4,178	5,623
Depreciation of right-of-use assets	—	—	—	—	2,484
Gain arising from change in fair value of financial assets at fair value through profit or loss ("FVTPL")	(452)	(810)	(5,342)	(1,040)	(3,111)
Operating cash flows before working capital changes	42,288	38,749	59,540	15,325	17,303
(Increase) decrease in inventories	(33,142)	(222,690)	175,009	163,663	61,000
(Increase) decrease in trade and bills receivables	(225,318)	14,720	(161,818)	27,052	(102,434)
(Increase) decrease in prepayment and other receivables	(59,960)	15,847	8,299	(2,728)	21,510
Increase (decrease) in trade and bills payables	63,156	258,414	145,627	(86,213)	23,636
Increase (decrease) in accruals and other payables	54,259	5,553	15,714	(8,543)	(20,761)
Increase (decrease) in contract liabilities	26,386	(35,586)	101,368	65,230	(77,257)
Increase (decrease) in amount due to a related company	4,345	(4,345)	—	—	—
Cash (used in) generated from operations	(127,986)	70,662	343,739	173,786	(77,003)
Income tax paid	(2,969)	(1,117)	(336)	(12)	(758)
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<b>(130,955)</b>	<b>69,545</b>	<b>343,403</b>	<b>173,774</b>	<b>(77,761)</b>

	Note	Year ended 31 December			Four months ended	
		2016	2017	2018	30 April	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>INVESTING ACTIVITIES</b>						
Payments for property, plant and equipment		(17,623)	(66,183)	(66,172)	(61,870)	(850)
Proceeds from disposal of property, plant and equipment		—	—	—	—	15
Payments for intangible assets		(2,948)	(1,388)	(586)	(90)	(58)
Purchase of financial assets at FVTPL		(246,974)	(295,996)	(476,338)	(240,686)	(193,229)
Proceeds from disposal of financial assets at FVTPL		232,046	265,376	265,620	185,696	175,650
Placement of pledged bank deposits		—	(14,856)	(9,416)	—	(60,000)
Withdrawal of pledged bank deposits		—	—	—	—	20,755
(Advance to) repayment from a shareholder		(900)	337	(506)	(337)	7
(Advance to) repayment from a related company		(1,000)	(6,900)	2,126	2,126	—
Repayment from a former related company	39(a)(ii)	—	—	—	—	5,774
Interest received		117	47	520	23	517
		<u>117</u>	<u>47</u>	<u>520</u>	<u>23</u>	<u>517</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>						
		<u>(37,282)</u>	<u>(119,563)</u>	<u>(284,752)</u>	<u>(115,138)</u>	<u>(51,419)</u>
<b>FINANCING ACTIVITIES</b>						
Government subsidies received		18,488	28,888	35,383	12,762	8,200
Dividend paid		—	(20,000)	—	—	—
Proceeds from issue of shares		1,500	—	5	—	—
Capital injection from controlling shareholders		—	40,000	—	—	—
Capital injection from the then shareholder of a subsidiary		—	—	8,201	—	—
Capital injection from non-controlling shareholder of a subsidiary		—	—	5,625	—	—
New borrowings raised		655,388	1,050,234	492,790	364,323	439,447
Repayment of borrowing		(421,432)	(1,059,966)	(599,829)	(449,173)	(317,584)
Payment for lease liabilities		—	—	—	—	(2,938)
Interest paid		(1,400)	(7,459)	(15,884)	(3,000)	(5,100)
		<u>(1,400)</u>	<u>(7,459)</u>	<u>(15,884)</u>	<u>(3,000)</u>	<u>(5,100)</u>
<b>NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES</b>						
		<u>252,544</u>	<u>31,697</u>	<u>(73,709)</u>	<u>(75,088)</u>	<u>122,025</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
		<u>84,307</u>	<u>(18,321)</u>	<u>(15,058)</u>	<u>(16,452)</u>	<u>(7,156)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>						
		<u>3,326</u>	<u>91,826</u>	<u>68,830</u>	<u>68,830</u>	<u>56,118</u>
Effect of foreign exchange rate changes		<u>4,193</u>	<u>(4,675)</u>	<u>2,346</u>	<u>(1,668)</u>	<u>837</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, represented by bank balances and cash</b>						
		<u>91,826</u>	<u>68,830</u>	<u>56,118</u>	<u>50,710</u>	<u>49,799</u>

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

## 1. CORPORATE 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 in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its controlling shareholders during the Track Record Period are Mr. Li Chengjun and Mr. Xiong Bin (the "**Controlling Shareholders**").

The address of the registered office and the principal place of business of the Company are stated in the "Corporate Information" section of the Prospectus.

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. Particulars of the subsidiaries have been set out in Note 40.

The Historical Financial Information is 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. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Pursuant to the reorganisation, as detailed in the section headed "History, Development and Reorganisation" in the Prospectus (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group on 10 September 2018. The Group has been under the control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Historical Financial Information of the Group has been prepared on the basis as if the Company had always been the holding company of the companies comprising the Group throughout the Track Record Period, using the principles of merger accounting in accordance with the Accounting Guideline "Merger Accounting for Common Control Combinations" issued by HKICPA as set out in Note 4 below.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016 and 2017 have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence as at the respective dates.

### 3. APPLICATION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Historical Financial Information, the Group has consistently adopted all the HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“**HKASs**”), amendments and interpretations (“**Int(s)**”) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2019, including HKFRS 15 “Revenue from Contracts with Customers”, throughout the Track Record Period, except that the Group adopted HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) on 1 January 2018, HKFRS 16 “Leases” (“**HKFRS 16**”) on 1 January 2019 and adopted HKAS 39 “Financial Instruments — Recognition and Measurement” (“**HKAS 39**”) during the years ended 31 December 2016 and 2017 and adopted HKAS 17 “Leases” (“**HKAS 17**”) during the years ended 31 December 2016, 2017 and 2018.

#### **HKFRS 9, “Financial Instruments”**

The Group has applied HKFRS 9 Financial Instruments for the first time commencing 1 January 2018. HKFRS 9 replaces the provisions of HKAS 39 Financial Instruments (“**HKAS 39**”) that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments — Disclosures. The accounting policies were changed to comply with HKFRS 9.

##### *(i) Classification and measurement of financial instruments*

At the initial application of HKFRS 9, the directors of the Company reviewed and assessed the Group’s existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to be measured as same bases as are measured under HKAS 39.

##### *(ii) Loss allowance for Expected Credit Losses (“ECL”)*

The adoption of HKFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing HKAS 39’s incurred loss model with a forward-looking ECL model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates financial statements items impacted by initial application of HKFRS 9 in respect of the expected credit losses of trade and bills receivables at the date of initial application, i.e. 1 January 2018.

	<b>Trade and bills receivables</b>	<b>Deferred tax asset</b>	<b>Retained profits</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Closing balance at 31 December 2017	244,668	1,453	52,988
Effect arising from initial application of HKFRS 9:			
Remeasurement			
— Impairment under ECL model	<u>(275)</u>	<u>69</u>	<u>(206)</u>
Opening balance at 1 January 2018	<u>244,393</u>	<u>1,522</u>	<u>52,782</u>

Determining the ECL requires judgements. The Group applies the simplified approach to providing loss allowance at an amount equal to lifetime ECLs for trade and bills receivables at initial recognition and through its life of the asset. It is measured to reflect an unbiased and probability-weighted amount of a range of possible outcomes, time value of money and certain information that is available without undue cost or effort at the reporting date.

For other financial assets subject to ECL, the ECL is based on the 12-month ECL. The 12-months ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

As at 1 January 2018, the additional impairment loss allowance on trade and bills receivables of approximately RMB275,000 has been recognised, thereby reducing the opening retained earnings of RMB206,000, net of related deferred tax impact of RMB69,000.



**HKFRS 16, “Leases”**

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in Note 4. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2016, 2017 and 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, the Historical Financial Information as at and for the years ended 31 December 2016, 2017 and 2018 were prepared under HKAS 17 Leases (“**HKAS 17**”).

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

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

***The Group as lessee***

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

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

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

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

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

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

*(ii) Practical expedients applied*

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

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

**New and revised HKFRSs issued but not yet effective**

At the date of this report, the following new and revised HKFRSs have been issued but are not yet effective. The Group has not early applied these new and revised HKFRSs:

HKFRS 17	Insurance Contracts <sup>2</sup>
Amendments to HKFRS 3	Definition of a Business <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> Effective for business combinations and asset acquisition for which the acquisition date is after the beginning of the first annual reporting period beginning on or after 1 January 2020

<sup>4</sup> Effective date not yet been determined

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs issued by HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

**Basis of consolidation**

The Historical Financial Information incorporates the financial information of the Company and entities controlled by the Company upon the Reorganisation.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and non-controlling interest.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group and any unrealised profits arising from intra-group transactions are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries in preparing the Historical Financial Information to bring their accounting policies in line with the Group's accounting policies.

**Merger accounting for business combination involving entities under common control**

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

### **Revenue recognition**

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

#### *Sales of goods*

The Group produces and sells mobile phones, PCBAs for mobile phone, IOT related products, and other products related to mobile phones. Revenue from the sale of goods is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer generally on delivery of goods to the customer's specified location and when customer acceptance has been obtained which is the point of time the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

A receivable is recognised when the products are delivered and accepted by customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Payment of the transaction price is usually due within 30–90 days of the date when control of the products is transferred to the customer.

The Group normally received range from 5% to 30% of the contract value as deposit from customers when they signed the sale and purchase agreement for sales of products. For certain sale order received from customer relating to IOT related products, the Group received 80% of the contract value as upfront deposit when they signed the sale agreement. These deposits are recognised as contract liabilities until the goods have been delivered to the customers.

The Group provides warranties for general repairs of defects to ensure that the products comply with agreed upon specification and they are therefore assurance-type warranties and the Group accounts for the warranty in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets.

#### **Leasing (accounting policy applicable before 1 January 2019)**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **Leasing (accounting policy applicable on or after 1 January 2019)**

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

##### *The Group as lessee*

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

##### *Lease liabilities*

At the date of initial application of HKFRS 16 on 1 January 2019, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability represents the fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

##### *Right-of-use assets*

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.



Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the “Impairment losses on tangible assets and intangible assets” policy as stated below.

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for all leases.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government subsidies**

Government subsidies are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the subsidies will be received.

Government subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the subsidies are intended to compensate. Specifically, government subsidies whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefits cost**

Payments to the PRC state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current tax and deferred tax are recognised in profit or loss.

### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Intangible assets**

#### ***Intangible assets acquired separately***

The Group's intangible assets include computer software and patents.

The Group's computer software mainly represents licenses of enterprise management software acquired for administrative use. The directors considered that they are subject to a lower degree of functional and technical obsolescence. The Group's patents are related to the research and development of mobile phones, IOT products and software. Such patents have an effective period of 10 years from the application date.

The directors estimate that the useful lives of the Group's intangible assets (including computer software and patents) to be 10 years, based on (i) the period that the Group can derive future economic benefits from the use of these intangible assets; and (ii) the evaluation on when these intangible assets should be replaced due to technological change. Such useful lives of 10 years are estimated by the directors with reference to the historical experience on the usage of similar computer software and patents, and the amortisation period of intangible assets adopted by comparable companies.

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### **Cash and cash equivalents**

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash as defined above.

### **Investment in a subsidiary**

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets (accounting policy applicable before 1 January 2018)***

The Group assets classified into one of the two categories, including loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on effective interest basis for debt instruments.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, amount due from a related company, non-controlling shareholder of a subsidiary and a shareholder, pledged bank deposits and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see the accounting policy in respect of impairment loss of financial assets below).

Interest income is recognised by applying the effective interest rate, except for the short-term receivables where the recognition of interest would be immaterial.

*Financial asset at FVTPL*

Financial asset at FVTPL includes financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial asset at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other income in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 38(c).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, other receivables, amount due from a related company and amount due from a shareholder, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and bills receivables, other receivables, amount due from a related company and amount due from a shareholder are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.



*Financial assets (accounting policy applicable on or after 1 January 2018)*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trade) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the assets.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss.

*Classification of financial assets*

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

Interest income is recognised in profit or loss and is included in the “other gains and income” line item.

#### Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) are measured at FVTPL.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss and is included in the “other gains and income” line item. Fair value is determined in the manner described in Note 38(c).

#### *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, pledged bank deposits, amount due from a shareholder, other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9 for trade and bills receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade and bills receivables, when the amounts are over 24 months past due, whichever occur sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the companies comprising the Group are recognised at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities including trade and bills payables, accruals and other payables, borrowings, amount due to a related company, amounts due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Derecognition***

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the asset and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Impairment losses on tangible assets and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generation units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as immediately in profit or loss.

#### **Fair value measurement**

When measuring fair value, except for the value in use of assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the each reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.



## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the Historical Financial Information. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

### **Useful lives and estimated impairment of property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. The estimated useful lives reflect the Company's directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment, based on factors that include internal evaluation as well as technological change. The Group's replacement policy for property, plant and equipment is mainly based on the expected usage, expected repairs and maintenance, estimated useful lives of assets. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statements of profit or loss and other comprehensive income. As at 31 December 2016, 2017 and 2018 and 30 April 2019, the carrying amounts of property, plant and equipment were approximately RMB22,566,000, RMB80,207,000, RMB131,351,000 and RMB126,569,000 respectively. No impairment loss has been recognised during the Track Record Period.

### **Impairment losses recognised in respect of trade and bills receivables**

Prior to 1 January 2018, the management assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. If there is objective evidence that an impairment loss on trade and bills receivables has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. As at 31 December 2016 and 2017, the carrying amounts of trade and bills receivables were approximately RMB274,612,000 and RMB244,668,000 respectively. No impairment loss had been recognised.

Starting from 1 January 2018, the Group applies simplified approach in calculating ECL for trade and bills receivables, using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The amount of the impairment loss based on the ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. As at 31 December 2018 and 30 April 2019, the carrying amount of trade receivables is RMB417,066,000 and RMB524,093,000 (net of impairment loss allowance for doubtful debts of RMB1,096,000 and RMB1,476,000 respectively).

#### **Allowances recognised in respect of inventories**

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2016, 2017, 2018 and 30 April 2019, the carrying amounts of inventories were approximately RMB140,748,000, RMB356,947,000, RMB184,292,000 and RMB123,550,000 respectively. No impairment loss had been recognised during the Track Record Period.

#### **Provision for litigation**

During the Track Record Period, the Group has been involved in certain litigations and claims (see Note 43). The management determines the provision for claims based on their best estimates according to their understanding of legal advice. Where the final outcome of the claim and negotiation with the respective party is different from the estimation made by the management, such difference will result in a decrease or an increase profit in the year in which such determination is finalised. Provision for litigation of approximately nil, nil, RMB1,783,000 and nil were recognised as "administrative and other expenses" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, 2017 and 2018 and the four months ended 30 April 2019, respectively.

**6. 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 Track Record Period is recognised at a point in time.

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

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Mobile Phone	1,343,621	2,235,769	2,657,776	639,595	691,727
PCBAs	748,658	428,654	148,895	—	4,886
IOT related products	—	140,443	66,045	5,772	18,799
Others	<u>79,588</u>	<u>84,792</u>	<u>71,008</u>	<u>20,317</u>	<u>28,891</u>
	<u>2,171,867</u>	<u>2,889,658</u>	<u>2,943,724</u>	<u>665,684</u>	<u>744,303</u>

**7. SEGMENT INFORMATION**

The 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 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				
	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
India	1,041,746	1,519,280	1,744,915	446,932	210,566
Algeria	—	3,604	210,280	2,843	156,309
Thailand	663,621	409,545	62,796	3,531	—
The PRC	110,520	309,727	388,606	49,137	289,259
Pakistan	111,823	201,342	188,752	58,957	37,423
People's Republic of Bangladesh	111,682	156,691	192,900	48,201	25,308
Russia and Ukraine	23,486	51,738	86,102	28,943	—
Dubai	21,670	70,467	—	—	586
Vietnam	10,803	5,630	—	—	—
Other regions	76,516	161,634	69,373	27,140	24,852
	<u>2,171,867</u>	<u>2,889,658</u>	<u>2,943,724</u>	<u>665,684</u>	<u>744,303</u>

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

**Information about major customers**

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

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Customer A	622,513	705,752	393,867	191,805	129,851
Customer B	654,134	405,505	N/A*	N/A*	N/A*
Customer C	279,308	771,271	714,202	251,552	N/A*
Customer D	N/A*	N/A*	342,355	N/A*	N/A*
Customer E	N/A*	N/A*	N/A*	N/A*	174,830
Customer F	N/A*	N/A*	N/A*	N/A*	142,155

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

## 8. OTHER GAINS AND INCOME

	Year ended 31 December			Four months ended 30 April	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
				(Unaudited)	
Bank interest income	117	47	520	23	517
Exchange gain, net	5,246	—	—	730	1,758
Gain arising from change in fair value of financial assets at FVTPL	452	810	5,342	1,040	3,111
Government subsidies ( <i>Note</i> )	6,978	9,104	16,778	3,397	8,200
Amortisation of government grant ( <i>Note 30</i> )	—	—	4,866	282	2,203
Gain on disposal of property, plant and equipment	—	—	—	—	6
Sundry income	294	190	286	8	187
	<u>13,087</u>	<u>10,151</u>	<u>27,792</u>	<u>5,480</u>	<u>15,982</u>

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

## 9. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
				(Unaudited)	
Interests on:					
Interest portion of lease liabilities	—	—	—	—	298
Discounted bills and factoring loans	1,400	6,735	13,480	2,620	4,422
Borrowings	—	724	2,404	380	380
	<u>1,400</u>	<u>7,459</u>	<u>15,884</u>	<u>3,000</u>	<u>5,100</u>

## 10. INCOME TAX EXPENSES

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax:					
PRC Enterprise Income Tax ("EIT")	2,328	766	1,839	—	2,340
Over provision in prior years	(3)	—	—	—	—
Deferred tax ( <i>Note 31</i> ):					
(credit) charge to current year	<u>(569)</u>	<u>(701)</u>	<u>8,868</u>	<u>1,414</u>	<u>1,145</u>
Income tax expense	<u>1,756</u>	<u>65</u>	<u>10,707</u>	<u>1,414</u>	<u>3,485</u>

- (i) Pursuant to the rules and regulation of the British Virgins Islands (the "BVI") and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.
- (ii) The statutory tax rate of subsidiary in Hong Kong is 16.5%. No provision for Hong Kong Profits Tax had been provided for 2016, 2018 and the four months ended 30 April 2019 as the subsidiary in Hong Kong has no assessable profits for these years/period. No tax is payable on the profit for the year 2017 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.
- (iii) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary established in the PRC is 25% during the Track Record Period.
- (iv) One of the Group's subsidiaries, Shenzhen Sprocomm Telecommunication Technology Co., Ltd. ("**Shenzhen Sprocomm**"), is recognised as a High and New-technology Enterprise for the first time in July 2014, which has been granted tax concessions by the local tax bureau and is entitled to PRC EIT at concessionary rate of 15% during the year ended 31 December 2016 and Shenzhen Sprocomm has further obtained the renewal of its high technology qualification in October 2017 and is entitled to the concession rate of 15% from 2017 to 2019.
- (v) One of the Group's subsidiaries, Shanghai Sprocomm Telecommunication Technology Co., Ltd. ("**Shanghai Sprocomm**"), is awarded the Software Enterprise Certificate and was accredited as software enterprise under the relevant PRC laws and regulations in December 2015. Accordingly, Shanghai Sprocomm was granted a tax holiday of two years' tax exemption and a 50% reduction in the EIT rate of 25% for the next three years. As a result, the subsidiary was exempted from corporate income tax from 2016 to 2017, and is subject to a reduced corporate income tax rate of 12.5% from 2018 to 2020.
- (vi) The India taxation was calculated based on the rates applicable in the relevant jurisdiction on the estimated assessable profits. No provision of overseas profits tax has been made, as the Group did not have any assessable profits subject to overseas profits tax throughout Track Record Period.

The income tax expenses for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>44,451</u>	<u>32,144</u>	<u>54,658</u>	<u>12,521</u>	<u>17,522</u>
Tax at the domestic income tax rate of 25%	11,113	8,036	13,665	3,130	4,381
Tax effect of expenses not deductible for tax purpose	244	899	1,239	182	890
Tax effect of tax losses not recognised	2,197	5,247	2,420	3,447	2,153
Utilisation of tax losses not recognised	—	(1,670)	—	(138)	(82)
Effect of different tax rates of subsidiaries operating in other jurisdictions	917	(829)	803	(63)	914
Additional deduction arising from research and development expenses	(4,663)	(7,110)	(11,180)	(3,893)	(3,812)
Tax effect of tax exemption/deduction from tax authority (Note 10 (iv) and (v))	(8,049)	(4,508)	(4,025)	(1,251)	(2,034)
Over provision in prior years	(3)	—	—	—	—
Withholding tax on undistributed earnings of a PRC subsidiary (Note 31)	<u>—</u>	<u>—</u>	<u>7,785</u>	<u>—</u>	<u>1,075</u>
Income tax expenses	<u>1,756</u>	<u>65</u>	<u>10,707</u>	<u>1,414</u>	<u>3,485</u>

Details of deferred tax are set out in Note 31.



## 11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period has been arrived at after charging (crediting):					
Directors' emoluments ( <i>Note 12</i> )	752	948	1,207	318	327
Salaries, allowances and other benefits (excluding directors' emoluments)	99,046	124,466	109,034	38,345	42,345
Contributions to retirement benefits scheme (excluding directors' emoluments)	11,891	18,342	16,278	5,679	5,346
Total staff costs	<u>111,689</u>	<u>143,756</u>	<u>126,519</u>	<u>44,342</u>	<u>48,018</u>
Auditors' remuneration	103	616	627	—	401
Listing expenses	—	—	5,899	—	7,176
Amortisation of intangible assets	324	565	655	213	231
Amount of inventories recognised as an expense	2,006,230	2,648,995	2,680,527	606,339	676,304
Net foreign exchange losses (gains)	(5,246)	17,170	4,820	(730)	(1,758)
Depreciation of property, plant and equipment	3,656	8,485	14,770	4,178	5,623
Depreciation of right-of-use assets	—	—	—	—	2,484
Loss (gain) on disposal of property, plant and equipment	—	42	181	—	(6)
Impairment loss recognised in respect of trade and bills receivables	—	—	821	155	380
Loss on written off of property, plant and equipment	4	15	77	—	—
Provision for litigation	—	—	1,783	—	—
Operating lease payments in respect of premises ( <i>Note</i> )	<u>7,523</u>	<u>8,536</u>	<u>11,546</u>	<u>3,796</u>	<u>N/A</u>

*Note:* Operating lease payments in respect of premises for the years ended 31 December 2016, 2017 and 2018 represent payments made and accounted for under HKAS 17. Details of the lease payments made for the period ended 30 April 2019 are set out in Note 17.

## 12. DIRECTORS' EMOLUMENTS

Details of directors' emoluments are as follows:

Emoluments paid or payable in respect of services in connection with the management of the affair, of the Company or its subsidiary undertakings:	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Year ended 31 December 2016				
<i>Executive Directors</i>				
Mr. Li Chengjun <sup>1</sup>	—	333	86	419
Mr. Xiong Bin <sup>1</sup> (Chief Executive of the Company)	—	264	69	333
	—	597	155	752
Year ended 31 December 2017				
<i>Executive Directors</i>				
Mr. Li Chengjun <sup>1</sup>	—	472	122	594
Mr. Xiong Bin <sup>1</sup> (Chief Executive of the Company)	—	281	73	354
	—	753	195	948
Year ended 31 December 2018				
<i>Executive Directors</i>				
Mr. Li Chengjun <sup>1</sup>	—	612	128	740
Mr. Xiong Bin <sup>1</sup> (Chief Executive of the Company)	—	371	96	467
	—	983	224	1,207
Four months ended 30 April 2018 (unaudited)				
<i>Executive Directors</i>				
Mr. Li Chengjun <sup>1</sup>	—	164	35	199
Mr. Xiong Bin <sup>1</sup> (Chief Executive of the Company)	—	84	35	119
	—	248	70	318
Four months ended 30 April 2019				
<i>Executive Directors</i>				
Mr. Li Chengjun <sup>1</sup>	—	164	43	207
Mr. Xiong Bin <sup>1</sup> (Chief Executive of the Company)	—	84	36	120
	—	248	79	327

*Note:* The amounts disclosed above represent remuneration paid or payable to the directors of the Company (including emoluments for services an employee/director of the group entities prior to becoming the directors of the Company) by entities comprising the Group.

1. Appointed as the directors of the Company on 15 August 2018

None the chief executive nor any of the directors of the Company waived or agreed to waive any emoluments paid by the Group during the Track Record Period.

No emoluments were paid by the Group to any of the directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the Track Record Period.

Mr. Wong Kwan Kit, Mr. Lu Brian Yong Chen, Mr. Hung Wai Man and Ms. Tseng Chin I were appointed as independent non-executive directors on 18 October 2019. During the Track Record Period, the independent non-executive directors had not yet been appointed and did not receive any remuneration.

### 13. EMPLOYEES' EMOLUMENTS

During the Track Record Period, of the five individuals with the highest emoluments in the Group, two were the directors (including chief executive) of the Company, whose emoluments are set out in Note 12 above. The emolument of the remaining three highest paid individuals for the Track Record Period was as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and other benefits	997	989	1,281	333	331
Contributions to retirement benefits scheme	<u>248</u>	<u>231</u>	<u>289</u>	<u>68</u>	<u>75</u>
	<u>1,245</u>	<u>1,220</u>	<u>1,570</u>	<u>401</u>	<u>406</u>

Their emoluments were within the following band:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

No emoluments were paid by the Group to any of the five highest paid individuals of the Group including the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office during the Track Record Period.

**14. DIVIDENDS**

During the year ended 31 December 2017, Shenzhen Sprocomm declared and paid final dividends of approximately RMB20,000,000 in respect of previous year to its then shareholders prior to the Reorganisation.

Other than those as disclosed above, no dividend has been proposed by the companies comprising the Group during Track Record Period, nor has any dividend been proposed by the companies comprising the Group since the end of the Track Record Period.

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

**15. EARNINGS PER SHARE**

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

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Earnings for the purpose of basic earnings per share (profit for the year/period attributable to owners of the Company)	<u>42,729</u>	<u>32,674</u>	<u>45,393</u>	<u>11,683</u>	<u>14,641</u>
	'000	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>135,191</u>	<u>163,731</u>	<u>680,813</u>	<u>646,921</u>	<u>750,000</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share during the Track Record Period has been determined based on the number of shares in issue and deemed to be in issue (assuming the paid-in capital of the subsidiaries had been fully represented as share capital of the Company), adjusted by the capital injection or share capital issued during the respective year, multiplied by a time-weighting factor, on the assumption that the Reorganisation as detailed in note 2 and capitalisation issue as detailed in the section headed "Share Capital" to the Prospectus have been effective on 1 January 2016.

**Diluted earnings per share**

Diluted earnings per share is same as basic earnings per share as there were no dilutive potential ordinary shares outstanding during the Track Record Period.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture and fixture RMB'000	Motor vehicle RMB'000	Office equipment RMB'000	Land and building RMB'000	Total RMB'000
<b>COST</b>							
At 1 January 2016	2,794	2,734	1,805	460	2,712	—	10,505
Additions	6,802	7,084	1,017	162	2,558	—	17,623
Written off	—	—	(37)	—	(58)	—	(95)
At 31 December 2016 and 1 January 2017	9,596	9,818	2,785	622	5,212	—	28,033
Additions	527	1,241	93	198	1,054	63,070	66,183
Disposal	—	—	—	(117)	—	—	(117)
Written off	—	—	(29)	—	(135)	—	(164)
At 31 December 2017 and 1 January 2018	10,123	11,059	2,849	703	6,131	63,070	93,935
Additions	19,001	43,009	1,211	—	1,181	1,770	66,172
Disposal	—	(429)	(17)	—	(107)	—	(553)
Written off	—	—	(157)	—	(1)	—	(158)
At 31 December 2018 and 1 January 2019	29,124	53,639	3,886	703	7,204	64,840	159,396
Additions	109	199	—	—	542	—	850
Disposal	—	(69)	—	—	—	—	(69)
At 30 April 2019	<u>29,233</u>	<u>53,769</u>	<u>3,886</u>	<u>703</u>	<u>7,746</u>	<u>64,840</u>	<u>160,177</u>
<b>ACCUMULATED DEPRECIATION</b>							
At 1 January 2016	130	513	276	131	852	—	1,902
Charge for the year	983	1,130	573	90	880	—	3,656
Written off	—	—	(34)	—	(57)	—	(91)
At 31 December 2016 and 1 January 2017	1,113	1,643	815	221	1,675	—	5,467
Charge for the year	3,987	2,168	767	121	1,442	—	8,485
Disposal	—	—	—	(75)	—	—	(75)
Written off	—	—	(27)	—	(122)	—	(149)
At 31 December 2017 and 1 January 2018	5,100	3,811	1,555	267	2,995	—	13,728
Charge for the year	5,225	5,141	827	90	1,599	1,888	14,770
Disposal	—	(315)	(7)	—	(50)	—	(372)
Written off	—	—	(81)	—	—	—	(81)
At 31 December 2018 and 1 January 2019	10,325	8,637	2,294	357	4,544	1,888	28,045
Charge for the period	1,765	2,107	199	45	426	1,081	5,623
Disposal	—	(60)	—	—	—	—	(60)
At 30 April 2019	<u>12,090</u>	<u>10,684</u>	<u>2,493</u>	<u>402</u>	<u>4,970</u>	<u>2,969</u>	<u>33,608</u>
<b>CARRYING VALUES</b>							
As at 31 December 2016	<u>8,483</u>	<u>8,175</u>	<u>1,970</u>	<u>401</u>	<u>3,537</u>	<u>—</u>	<u>22,566</u>
As at 31 December 2017	<u>5,023</u>	<u>7,248</u>	<u>1,294</u>	<u>436</u>	<u>3,136</u>	<u>63,070</u>	<u>80,207</u>
As at 31 December 2018	<u>18,799</u>	<u>45,002</u>	<u>1,592</u>	<u>346</u>	<u>2,660</u>	<u>62,952</u>	<u>131,351</u>
As at 30 April 2019	<u>17,143</u>	<u>43,085</u>	<u>1,393</u>	<u>301</u>	<u>2,776</u>	<u>61,871</u>	<u>126,569</u>

- (i) The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follow:

Leasehold improvement	20% or over lease term whichever is shorter
Plant and machinery	10%–33%
Furniture and fixture	33%
Motor vehicles	20%
Office equipment	33%
Land and building	5% or over the lease term whichever is shorter

*Note:* The Group has pledged its land and building with a carrying value of approximately nil, RMB63,070,000 and RMB62,952,000 and RMB61,871,000 as at 31 December 2016, 2017 and 2018 and 30 April 2019 respectively to secure the Group's mortgage loan.

## 17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

### (i) Right-of-use assets

The Group leased several buildings as office and production facilities. The lease term ranges from two to six years.

	<i>RMB'000</i>
 <b>COST</b>	
<b>At 1 January 2019 and 30 April 2019</b>	<u><u>16,664</u></u>
 <b>ACCUMULATED DEPRECIATION</b>	
At 1 January 2019	—
Charge for the period	<u>2,484</u>
<b>At 30 April 2019</b>	<u><u>2,484</u></u>
 <b>CARRYING VALUES</b>	
<b>As at 1 January 2019</b>	<u><u>16,664</u></u>
<b>As at 30 April 2019</b>	<u><u>14,180</u></u>

The right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and useful life of the underlying asset.

**(ii) Lease liabilities**

	At 30 April 2019 <i>RMB'000</i>
Analysed as:	
Current portion	7,424
Non-current portion	<u>6,302</u>
	<u><u>13,726</u></u>
	At 30 April 2019 <i>RMB'000</i>
<b>Maturity analysis</b>	
Present value of lease liabilities:	
Within one year	7,424
More than 1 year but less than 2 years	5,944
More than 2 years but less than 5 years	<u>358</u>
	<u><u>13,726</u></u>
<b>Minimum lease payments due:</b>	
Within one year	7,898
More than 1 year but less than 2 years	6,108
More than 2 years but less than 5 years	<u>359</u>
	14,365
Less: Future finance charges	<u>(639)</u>
	<u><u>13,726</u></u>



**(iii) Amounts recognised in profit or loss**

	<b>Four months ended 30 April 2019</b>
	<i>RMB'000</i>
Depreciation expenses on right-of-use assets	2,484
Interest expenses on lease liabilities	298
Expenses relating to short-term leases	<u>1,061</u>

The Group had no expenses relating to variable lease payments not included in the measurement of the lease liability or leases of low value assets during the Track Record Period.

**(iv) Others**

At 30 April 2019, the Group had no commitment for lease agreements not yet commenced.

During the four months ended 30 April 2019, total cash outflow for leases amount to RMB4,297,000.

## 18. INTANGIBLE ASSETS

	<b>Computer software RMB'000</b>	<b>Patents RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>			
At 1 January 2016	1,583	333	1,916
Additions	<u>2,598</u>	<u>350</u>	<u>2,948</u>
At 31 December 2016 and 1 January 2017	4,181	683	4,864
Additions	<u>805</u>	<u>583</u>	<u>1,388</u>
At 31 December 2017 and 1 January 2018	4,986	1,266	6,252
Additions	<u>586</u>	<u>—</u>	<u>586</u>
At 31 December 2018 and 1 January 2019	5,572	1,266	6,838
Additions	<u>58</u>	<u>—</u>	<u>58</u>
At 30 April 2019	<u><u>5,630</u></u>	<u><u>1,266</u></u>	<u><u>6,896</u></u>
<b>AMORTISATION</b>			
At 1 January 2016	93	15	108
Charge for the year	<u>320</u>	<u>4</u>	<u>324</u>
At 31 December 2016 and 1 January 2017	413	19	432
Charge for the year	<u>536</u>	<u>29</u>	<u>565</u>
At 31 December 2017 and 1 January 2018	949	48	997
Charge for the year	<u>591</u>	<u>64</u>	<u>655</u>
At 31 December 2018 and 1 January 2019	1,540	112	1,652
Charge for the period	<u>210</u>	<u>21</u>	<u>231</u>
At 30 April 2019	<u><u>1,750</u></u>	<u><u>133</u></u>	<u><u>1,883</u></u>
<b>CARRYING VALUES</b>			
As at 31 December 2016	<u><u>3,768</u></u>	<u><u>664</u></u>	<u><u>4,432</u></u>
As at 31 December 2017	<u><u>4,037</u></u>	<u><u>1,218</u></u>	<u><u>5,255</u></u>
As at 31 December 2018	<u><u>4,032</u></u>	<u><u>1,154</u></u>	<u><u>5,186</u></u>
As at 30 April 2019	<u><u>3,880</u></u>	<u><u>1,133</u></u>	<u><u>5,013</u></u>

The above intangible asset has finite useful lives. Such intangible assets are amortised on a straight-line basis over ten years.

## 19. INVENTORIES

	At 31 December			At 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	60,874	146,266	114,063	95,096
Work in progress	18,696	22,589	16,011	5,552
Finished goods	<u>61,178</u>	<u>188,092</u>	<u>54,218</u>	<u>22,902</u>
	<u>140,748</u>	<u>356,947</u>	<u>184,292</u>	<u>123,550</u>

## 20. TRADE AND BILLS RECEIVABLES

	At 31 December			At 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	274,612	233,403	418,024	515,985
Less: Loss allowance for trade receivables	<u>—</u>	<u>—</u>	<u>(1,096)</u>	<u>(1,476)</u>
	274,612	233,403	416,928	514,509
Bills receivables	<u>—</u>	<u>11,265</u>	<u>138</u>	<u>9,584</u>
Trade and bills receivables	<u>274,612</u>	<u>244,668</u>	<u>417,066</u>	<u>524,093</u>

The gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB274,612,000, RMB244,668,000, RMB418,162,000 and RMB525,569,000 as at 31 December 2016, 2017, 2018 and 30 April 2019 respectively.

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

	At 31 December			At 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	223,177	89,358	320,707	390,186
31 to 60 days	47,541	73,647	71,792	68,501
61 to 90 days	3,703	14,736	15,292	40,011
Over 90 days	<u>191</u>	<u>66,927</u>	<u>10,371</u>	<u>26,871</u>
	274,612	244,668	418,162	525,569
Less: Impairment loss allowance	<u>—</u>	<u>—</u>	<u>(1,096)</u>	<u>(1,476)</u>
Total	<u><u>274,612</u></u>	<u><u>244,668</u></u>	<u><u>417,066</u></u>	<u><u>524,093</u></u>

Included in the Group's trade and bills receivables balances are debtors with aggregate carrying amount of approximately RMB191,000 and RMB66,927,000 as at 31 December 2016 and 2017 respectively which were past due as at the end of the respective reporting period. The Group has not provided for impairment loss as at 31 December 2016 and 2017 as the Group considered such balances could be recovered base on historical experience or have been subsequently settled. Moreover, the management of the Group was not aware of any significant change in credit quality of the trade and bills receivables. Thus, the amounts are still considered recoverable.

The ageing analysis of trade and bills receivables which are past due but not impaired is as follows:

	At 31 December	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	123	66,906
31–60 days	<u>68</u>	<u>21</u>
Total	<u><u>191</u></u>	<u><u>66,927</u></u>

No interest is charged on the trade and bills receivables.

Before the application of HKFRS 9 on 1 January 2018, the Group has policy regarding impairment losses on trade receivables which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment including the current creditworthiness and the past collection history of each customer. No allowance for bad and doubtful debt was provided and no balance of provision for bad and doubtful had been recognised as at 31 December 2016 and 2017.

Upon the application of HKFRS 9 on 1 January 2018, the Group applies simplified approach to provide for ECL of trade receivables prescribed by HKFRS 9.

#### Impairment assessment on trade receivables subject to ECL model

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are grouped under a provision matrix into three internal credit rating buckets (namely: low risk, medium risk and high risk) based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position. The following table provides information about the exposure to credit risk and ECL for trade and bills receivables which are assessed collectively based on provision matrix as at 1 January 2018, 31 December 2018 and 30 April 2019.

	Average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Internal credit rating			
As at 1 January 2018			
Low risk	<u>0.11%</u>	<u>244,668</u>	<u>275</u>
As at 31 December 2018			
Low risk	<u>0.26%</u>	<u>418,162</u>	<u>1,096</u>
As at 30 April 2019			
Low risk	<u>0.28%</u>	<u>525,569</u>	<u>1,476</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in the PRC, India and other countries, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

Movement of impairment loss allowances of trade and bills receivables are as follows:

	<i>RMB'000</i>
Closing balance at 31 December 2017	—
Effect of adoption of HKFRS 9	<u>(275)</u>
Opening balance at 1 January 2018	(275)
ECL Impairment loss allowance	<u>(821)</u>
As at 31 December 2018	<u><u>(1,096)</u></u>
ECL Impairment loss allowance	<u>(380)</u>
As at 30 April 2019	<u><u>(1,476)</u></u>

Since the application of HKFRS 9 on 1 January 2018, there has been no change in the estimation techniques or significant assumptions made.

As at 31 December 2016, 2017, 2018 and 30 April 2019, the Group discounted and factored trade and bills receivables in aggregate amounts of approximately RMB245,772,000, RMB191,395,000, RMB87,161,000 and RMB208,126,000 to banks and factoring company for short term financing.

#### Transfers of financial assets

The following were the Group's trade and bills receivables as at 31 December 2016, 2017, 2018 and 30 April 2019 that were transferred to banks and factoring company by discounting those trade and bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these trade and bills receivables, it continues to recognise the full carrying amount of the trade and bills receivables and has recognised the cash received on the transfer as secured borrowings (see Note 28). These trade and bills receivables are carried at amortised cost in the consolidated statements of financial position.

The trade and bills receivables discounted and factored to banks and a factoring company with full recourse is as follows:

	At 31 December			At 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of transferred assets	245,772	191,395	87,161	208,126
Carrying amount of associated liabilities	<u>(245,772)</u>	<u>(191,395)</u>	<u>(87,161)</u>	<u>(208,126)</u>
Net position	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

## 21. PREPAYMENTS AND OTHER RECEIVABLES

	The Group			The Company		
	At 31 December			At	At	At
	2016	2017	2018	30 April 2019	31 December 2018	30 April 2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	70,262	39,035	9,735	9,733	1,719	3,875
Deposit	1,766	1,868	1,393	1,340	—	—
Other tax recoverable	17,954	33,338	56,147	34,343	—	—
Others	3,180	3,053	7,495	2,068	—	—
	<u>93,162</u>	<u>77,294</u>	<u>74,770</u>	<u>47,484</u>	<u>1,719</u>	<u>3,875</u>

*Note:* Included in prepayments and other receivables are other receivables and refundable deposits of approximately RMB4,946,000, RMB4,921,000, RMB8,888,000 and RMB3,408,000 as at 31 December 2016, 2017, 2018 and 30 April 2019. 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.

## 22. AMOUNTS DUE FROM (TO) A RELATED COMPANY/SHAREHOLDER/NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

Except for the trade related balance of amount due to a related company which set out in Note 39 (c), the amount due from a related company and the amounts due from (to) a shareholder/non-controlling shareholder of a subsidiary are non-trade nature, unsecured, non-interest bearing and repayable on demand.

Details of the related party transactions are disclosed in Note 39.

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

	At 31 December			At
	2016	2017	2018	30 April 2019
	RMB'000	RMB'000	RMB'000	RMB'000
Structured deposits stated at fair value ( <i>Note i</i> )	4,190	42,950	295,480	316,170
Wealth management products stated at fair value ( <i>Note ii</i> )	<u>43,800</u>	<u>36,470</u>	<u>—</u>	<u>—</u>
	<u>47,990</u>	<u>79,420</u>	<u>295,480</u>	<u>316,170</u>



The financial assets at FVTPL as at 31 December 2016, 2017, 2018 and 30 April 2019 represented contracts of principal guaranteed structured deposits and wealth management products with banks in the PRC which are presented as current assets since their maturities are within 12 months from the end of the reporting period based on the contract terms.

*Note:*

- (i) Pursuant to the relevant agreements, these structured deposits carry interest at a variable rate per annum with reference to the performance of foreign currency or interest rate during the investment period and the principal sums are denominated in RMB. The directors of the Company consider the fair values of the structured deposits, which are based on the prices provided by the counterparty banks representing the prices they would pay to redeem the deposits at 31 December 2016, 2017 and 2018 and 30 April 2019, approximate to their carrying values on the same day.
- (ii) The return of wealth management products are determined by reference to the performance of investment portfolio of mainly debt securities and the investment performance is managed by the issuing banks.

Management has assessed the credit quality of the financial institution and considered the credit risk to be not significant. Details of fair value measurement are stated in Note 38(c).

#### 24. PLEDGED BANK DEPOSITS

The bank deposits of approximately RMB14,340,000, RMB24,639,000 and RMB64,273,000 were pledged by the Group for the purpose of secure discounted bills loans (Note 28) and general bank facility granted to the Group as at 31 December 2017, 2018 and 30 April 2019. The pledged bank deposits of approximately RMB14,340,000, RMB24,639,000 and RMB4,273,000 as at 31 December 2017, 2018 and 30 April 2019 respectively, carry interests at floating daily bank deposits rate. As at 30 April 2019, pledged bank deposits of RMB60,000,000 carried fixed interest at 4% per annum. As at 31 December 2017 and 2018 and 30 April 2019, the pledged bank deposits carried at prevailing market rates of 0.2%, 0.2% and 0.2% to 4% per annum respectively.

#### 25. BANK BALANCES AND CASH

At 31 December 2016, 2017, 2018 and 30 April 2019, bank balances earned interest at floating rates based on daily bank deposit rates.

Included in the bank balances and cash is the following amount denominated in a currency other than the functional currency of relevant group entities:

	At 31 December			At
	2016	2017	2018	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
USD	<u>471</u>	<u>317</u>	<u>635</u>	<u>—</u>

## 26. TRADE AND BILLS PAYABLES

	At 31 December			At 30 April 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	231,042	457,031	339,551	354,120
Bills payables	—	30,948	306,978	316,066
Trade and bills payables	<u>231,042</u>	<u>487,979</u>	<u>646,529</u>	<u>670,186</u>

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

	At 31 December			At 30 April 2019
	2016	2017	2018	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	131,648	300,763	317,573	380,533
31 to 60 days	55,713	151,232	131,903	91,343
61 to 90 days	17,767	23,792	56,713	37,303
Over 90 days	<u>25,914</u>	<u>12,192</u>	<u>140,340</u>	<u>161,007</u>
Total	<u>231,042</u>	<u>487,979</u>	<u>646,529</u>	<u>670,186</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.

## 27. ACCRUALS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	The Group			The Company		
	At 31 December			At 30 April 2019	At 31 December 2018	At 30 April 2019
	2016	2017	2018	2019	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salary payable	40,765	56,317	62,593	51,858	—	—
Other payables ( <i>Note (i)</i> )	7,193	5,521	13,075	12,210	—	—
Accrued listing expenses	—	—	439	1,719	439	1,719
Government subsidies in advance ( <i>Note (ii)</i> )	11,510	31,294	12,358	12,358	—	—
Other tax payables	<u>25,874</u>	<u>17,547</u>	<u>18,352</u>	<u>7,917</u>	<u>—</u>	<u>—</u>
	<u>85,342</u>	<u>110,679</u>	<u>106,817</u>	<u>86,062</u>	<u>439</u>	<u>1,719</u>
Contract liabilities ( <i>Note (iii)</i> )	<u>43,688</u>	<u>7,449</u>	<u>109,138</u>	<u>32,018</u>	<u>—</u>	<u>—</u>

*Notes:*

- (i) As at 31 December 2018 and 30 April 2019, included in other payables was provision for litigations of approximately RMB1,783,000 and RMB1,783,000 respectively. Details of the litigations are set out in Note 43.
- (ii) Government subsidies in advance by a subsidiary included in accruals and other payables are mainly related to the capital expenditure incurred for property and equipment, leasehold improvement and subsidies for recruitment of certain number of workers for factory operation, before fulfilling certain conditions under the terms of the government subsidies. The government subsidies received may need to be refunded if the subsidiary failed to fulfill the attached conditions within the stipulated time. Upon fulfilment of those conditions, government subsidies related to compensation of expenses are credited to the profit or loss in the year/period the Group complied with the conditions attached to the subsidies, whereas assets-related subsidies are reclassified to deferred income and credit to the profit or loss on a straight-line basis over the expected lives of the related assets. As at 31 December 2017, included in the balance was government subsidies in advance of approximately RMB19,576,000 which the Group has subsequently fulfilled the relevant conditions and was transferred to deferred income during the year ended 31 December 2018 and amortised over the useful life of the related assets.
- (iii) Contract liabilities as at 31 December 2016, 2017, 2018 and 30 April 2019 amounted to approximately RMB43,688,000, RMB7,449,000, RMB109,138,000 and RMB32,018,000 respectively, which represented receipts in advance from customers.

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 are unsatisfied as of the end of respective reporting period.

**Significant changes in contract liabilities**

The significant decrease in contract liabilities as at 31 December 2017 was mainly due to the advance from customers as at 31 December 2016 had been recognised as revenue upon transfer of goods during the year ended 31 December 2017.

The significant increase in contract liabilities as at 31 December 2018 was mainly due to the up-front payment of more orders of mobile phone made by customers for the contracts during the year ended 31 December 2018.

The significant decrease in contract liabilities as at 30 April 2019 was mainly due to the up-front payment received in 2018 has been recognised as revenue upon transfer of goods during the four months ended 30 April 2019.

**Revenue recognised in relation to contract liabilities**

For the contract liabilities as at 31 December 2016, 2017 and 2018, the entire balances are recognised as revenue during the years ended 31 December 2017, 2018 and the four months ended 30 April 2019 respectively.

## 28. BORROWINGS

	At 31 December			At 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing, secured (Notes a & b)	245,772	182,645	103,588	231,311
Other loans, secured (Note c)	—	40,000	17,073	17,073
	<u>245,772</u>	<u>222,645</u>	<u>120,661</u>	<u>248,384</u>
Borrowings comprise:				
Variable-rate borrowings	—	31,250	28,201	27,439
Fixed-rate borrowings	<u>245,772</u>	<u>191,395</u>	<u>92,460</u>	<u>220,945</u>
	<u>245,772</u>	<u>222,645</u>	<u>120,661</u>	<u>248,384</u>
Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):				
Within one year	245,772	194,444	95,509	223,994
More than 1 year but less than 2 years	—	3,049	3,049	3,049
More than 2 years but less than 5 years	—	9,146	9,146	9,146
More than 5 years	<u>—</u>	<u>16,006</u>	<u>12,957</u>	<u>12,195</u>
	<u>245,772</u>	<u>222,645</u>	<u>120,661</u>	<u>248,384</u>
Carrying amount repayable on demand or within one year	<u>245,772</u>	<u>194,444</u>	<u>95,509</u>	<u>223,994</u>
Amount shown under current liabilities	245,772	194,444	95,509	223,994
Amount shown under non-current liabilities	<u>—</u>	<u>28,201</u>	<u>25,152</u>	<u>24,390</u>
	<u>245,772</u>	<u>222,645</u>	<u>120,661</u>	<u>248,384</u>

- (a) As at 31 December 2016 and 2017, the fixed-rate borrowings include discounted bills loans of RMB245,772,000 and RMB151,395,000 respectively carried interest rate of 0.23% to 3.72%, which determined based on 1.25% per annum respectively over the higher the London Interbank Offered Rate (“LIBOR”) and the lender’s cost of fund at inception of the respective loan (the “Discounted Bills Loans”). As at 31 December 2018, the fixed-rate borrowings represent the Discount Bills Loan of approximately RMB75,387,000 carried interest rate of 3.77% per annum determined based on 1.3% over LIBOR at inception. As at 30 April 2019, the fixed-rate borrowings represent the Discounted Bills Loans of approximately RMB203,872,000 carried interest rate of 3.56% per annum determined based on 1.3% over LIBOR at inception.
- (b) The variable rate borrowings represent a bank borrowing repayable by instalments within 10 years bears interest at 10% premium over People’s Bank of China (“PBOC”) benchmark lending rate per annum and subject to annual repricing based on the same benchmark. The borrowing is secured by mortgages over the Group’s leasehold land and buildings as at 31 December 2017 and 2018 and 30 April 2019.
- (c) In December 2017, the Group entered into a receivables factoring agreement with a factoring company and discounted certain receivables to the factoring company with recourse. As at 31 December 2017, 2018 and 30 April 2019, the carrying amount of the receivables not derecognised and the borrowings were approximately RMB40,000,000, RMB17,073,000 and RMB17,073,000 respectively and carry effective interest rate of 4% per annum during the Track Record Period.

The amounts of borrowing facilities and the utilisation at the end of the reporting period are set out as follows:

	At 31 December		At 30 April	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Facility amount	<u>245,772</u>	<u>151,395</u>	<u>75,387</u>	<u>203,872</u>
Utilisation				
Secured bank borrowings	<u>245,772</u>	<u>151,395</u>	<u>75,387</u>	<u>203,872</u>

As at 31 December 2016 and 2017, one of the Controlling Shareholders, Mr. Li Chengjun and an independent third party provided a joint limited guarantee of approximately RMB245,772,000 and RMB151,395,000, respectively, to banks for the banking borrowings granted to the Group. The guarantees from the independent third party are received at zero consideration. Such guarantees were released during the year ended 31 December 2018 upon the settlement of the relevant bank loans.

As at 31 December 2018 and 30 April 2019, a banking facility of approximately RMB70,092,000 and approximately RMB191,053,000, respectively, were secured by joint personal guarantee provided by the Controlling Shareholders, Mr. Li Chengjun and Mr. Xiong Bin.

**29. AMOUNTS DUE TO SUBSIDIARIES**

The amounts due to subsidiaries are non-trade nature, unsecured, non-interest bearing and repayable on demand.

**30. DEFERRED INCOME**

	At 31 December			At 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	—	—	—	33,315
Received during the year	—	—	18,605	—
Reclassified from other payables ( <i>note</i> )	—	—	19,576	—
			38,181	33,315
Amortisation of government grant ( <i>note 8</i> )	—	—	(4,866)	(2,203)
Balance as at the end of year/period	<u>—</u>	<u>—</u>	<u>33,315</u>	<u>31,112</u>
Analysed as:				
Current liabilities	—	—	6,609	6,609
Non-current liabilities	—	—	26,706	24,503
	<u>—</u>	<u>—</u>	<u>33,315</u>	<u>31,112</u>

*Note:* During the year ended 31 December 2018, the Group fulfilled the conditions of certain government subsidies received in 2017 and the relevant balance was reclassified as deferred income and amortised over the useful life of the related assets.

Deferred income consists of government subsidies provided by the relevant PRC government authorities for the purposes of financing the purchase of plant and machinery and the expenses related to the leasehold improvement. The amounts are recognised as income to match with related expenses and cost incurred on systematic basis over the useful lives of the relevant assets upon completing inspection by the related government authorities. During the year ended 31 December 2016, 2017, 2018 and four months ended 30 April 2019, government subsidies released to the consolidated statements of profit or loss and other comprehensive income amounted to approximately nil, nil, RMB4,866,000 and RMB2,203,000 respectively.

**31. DEFERRED TAX ASSET (LIABILITY)**

The following is the analysis of the deferred tax asset (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	At 31 December			At 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax asset	752	1,453	439	369
Deferred tax liabilities	<u>—</u>	<u>—</u>	<u>(7,785)</u>	<u>(8,860)</u>
	<u>752</u>	<u>1,453</u>	<u>(7,346)</u>	<u>(8,491)</u>

The followings are the major deferred tax asset (liabilities) recognised and movements thereon during the Track Record Period:

	Unrealised profit due to intra-group transaction	Withholding tax on undistributed profit of a PRC subsidiary	Allowance on doubtful debts	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	183	—	—	183
Credit to profit or loss	<u>569</u>	<u>—</u>	<u>—</u>	<u>569</u>
At 31 December 2016 and 1 January 2017	752	—	—	752
Credit to profit or loss	<u>701</u>	<u>—</u>	<u>—</u>	<u>701</u>
At 31 December 2017	1,453	—	—	1,453
HKFRS 9 adjustment ( <i>Note 2</i> )	<u>—</u>	<u>—</u>	<u>69</u>	<u>69</u>
At 1 January 2018	1,453	—	69	1,522
(Charge) credit to profit or loss	<u>(1,288)</u>	<u>(7,785)</u>	<u>205</u>	<u>(8,868)</u>
At 31 December 2018 and 1 January 2019	165	(7,785)	274	(7,346)
(Charge) credit to profit or loss	<u>(165)</u>	<u>(1,075)</u>	<u>95</u>	<u>(1,145)</u>
At 30 April 2019	<u>—</u>	<u>(8,860)</u>	<u>369</u>	<u>(8,491)</u>



Under the EIT Law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The directors determined that the management of the Group can control the quantum and timing of distribution of profits of their PRC subsidiaries. Deferred tax liability is only provided to the extent that such profits are expected to be distributed in the foreseeable future. Deferred taxation has been provided in respect of the temporary differences associated with the undistributed profits earned by a PRC subsidiary, Shenzhen Sprocomm at the applicable withholding tax of 5%.

At the end of the reporting period, the Group has unused tax losses of approximately RMB12,230,000, and RMB34,808,000 and RMB48,450,000 and RMB57,965,000 as at 31 December 2016, 2017, 2018 and 30 April 2019 available for offset against future profits. These unused tax losses mainly arose from (i) the preferential tax treatments of the research and development expenditure which resulted in additional tax deductions related to qualified research and development costs of Shenzhen Sprocomm; or (ii) losses incurred by Chengdu Sprocomm Cloud Technology Co., Ltd. (“**Chengdu Sprocomm**”), Sprocomm Technologies Co., Ltd. (“**HK Sprocomm**”), Guizhou Sprocomm Telecommunication Technology Co., Ltd. (“**Guizhou Sprocomm**”) and Guizhou Mars Exploration Technology Co., Ltd (“**Guizhou Mars**”). No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams for these subsidiaries. Included in unrecognised tax losses are losses of approximately RMB1,925,000, RMB34,339,000, RMB36,339,000 and RMB42,236,000 as at 31 December 2016, 2017 and 2018 and 30 April 2019 that will expire in the next five years. Other losses may be carried forward indefinitely.

### 32. PAID-IN CAPITAL/SHARE CAPITAL

The balance as at 31 December 2016 and 2017 represented the aggregate paid-up capital of the following companies. The share capital as at 31 December 2018 and 30 April 2019 represented the share capital of the Company.

#### The Group

	<i>Notes</i>	At 31 December			At 30 April
		2016	2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Company	(c)	N/A	N/A	5	5
Shenzhen Sprocomm	(a)	10,000	50,000	—	—
Guizhou Mars	(b)	<u>1,500</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>11,500</u>	<u>50,000</u>	<u>5</u>	<u>5</u>

- (a) Shenzhen Sprocomm, the Group's principal subsidiary, was established in Shenzhen of the PRC on 16 September 2009. As at 1 January 2016, the registered and paid-in capital of Shenzhen Sprocomm was RMB10,000,000 was owned as to 54.81% and 45.19% by the controlling shareholders of the Company, Mr. Li Chengjun and Mr. Xiong Bin, respectively. During the year ended 31 December 2017, the registered and paid-in capital increased by RMB40,000,000 and was fully paid by Mr. Li and Mr. Xiong on a pro rata basis pursuant to their shareholdings in Shenzhen Sprocomm. On 18 December 2017, Shenzhen Sprocomm had registered and paid-in capital of RMB50,000,000. In September 2018, pursuant to the Reorganisation, an investor injected the total amount of capital of RMB8,201,000 into Shenzhen Sprocomm while the amount of approximately RMB5,556,000 represented the paid in capital and excess amount of approximately RMB2,645,000 was recognised as capital reserve.
- (b) Guizhou Mars was established in the PRC on 29 June 2016. The equity interest in Guizhou Mars was transferred from a related company, Shenzhen Mars Exploration Technology Co., Ltd. ("**Shenzhen Mars**"), to Shenzhen Sprocomm at the consideration of RMB1 on 11 December 2017 pursuant to the Reorganisation of the Group.
- (c) On 15 August 2018, the Company was incorporated with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon incorporation, 1 ordinary share was issued and allotted to the initial subscriber which was subsequently transferred to Beyond Innovation Limited ("**Beyond Innovation**"). On the same day, 5,481 and 4,518 shares were allotted and issued at par, credited as fully paid, to Leap Elite Limited and Beyond Innovation, respectively. As at 10 September 2018, 221,431 ordinary shares, 268,569 ordinary shares, and 55,556 ordinary shares of the Company of HK\$0.01 were issued at par to each of Beyond Innovation, Leap Elite Limited, and an independent third party and pre-ipo investor, JZ Capital Limited, respectively (the "**New Ordinary Shares**"). Beyond Innovation, Leap Elite Limited are wholly and beneficially owned by Mr. Li and Mr. Xiong, respectively. Immediately following the issue of the New Ordinary Shares, the Company was owned as to 49.33%, 40.67% and 10% by Leap Elite, Beyond Innovation and JZ Capital, respectively.
- (d) On 10 September 2018, Mr. Li, Mr. Xiong and JZ Capital (the "**Equity holder**") transferred their equity interests in Shenzhen Sprocomm to Sprocomm Intelligence (HK) Limited, a company wholly owned by the Company at a cash consideration of approximately RMB83,800,000. As part of the Reorganisation, the Equity holders assigned the consideration receivable by them to Grace Kirin Limited ("**Grace Kirin**"), a company wholly owned by the Company as capital injection. The assignment of the consideration receivable is treated as deemed capital contribution from the Equity holders and credited to capital reserve (the "**Deemed Capital Contribution**"). The Reorganisation was completed in September 2018 following the completion of the above equity transfer and Deemed Capital Contribution.

**The Company**

Details of movements of authorised and issued share capital of the Company are as follows:

	Number of shares	Share capital RMB
<b>Ordinary shares of HK\$0.01 each</b>		
Authorised:		
On the date of incorporation, 31 December 2018 and 30 April 2019	<u>38,000,000</u>	<u>333,743</u>
Issued and fully paid:		
On the date of incorporation	10,000	87
New Ordinary Shares issued on 10 September 2018	<u>545,556</u>	<u>4,792</u>
As at 31 December 2018 and 30 April 2019	<u>555,556</u>	<u>4,879</u>

All new shares rank *pari passu* with the existing shares in all respects.

**33. RESERVES****(i) Statutory reserve**

According to the People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant subsidiaries. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

**(ii) Merger reserve**

On 11 December 2017, Shenzhen Mars, a related company formerly wholly owned by the Controlling Shareholders (as defined in note 1), transferred their entire shareholding in Guizhou Mars to Shenzhen Sprocomm, a company established in the PRC and wholly owned by the Controlling shareholders, at RMB1 consideration. Guizhou Mars is the wholly owned by Shenzhen Sprocomm since the completion of transfer.

During the year ended 31 December 2018, the Group has completed the Reorganisation and the difference between the cost of investment in Shenzhen Sprocomm pursuant to the Reorganisation over the paid-in capital of RMB28,244,000 was transferred to the merger reserve.

**(iii) Capital reserve**

The amount represents (i) the amount paid contributed by an equity holder in excess of registered capital of Shenzhen Sprocomm (note 32(a)); and (ii) the Deemed Capital Contribution pursuant to the Reorganisation of the Group as detailed in note 32(d).

**(iv) Reserve of the Company**

	<b>Accumulated loss RMB'000</b>
At date of incorporation	—
Loss and total comprehensive expense for the period	<u>6,148</u>
At 31 December 2018 and 1 January 2019	6,148
Loss and total comprehensive expense for the period	<u>7,086</u>
At 30 April 2019	<u><u>13,234</u></u>

**34. NON-CONTROLLING INTERESTS**

	<b>At 31 December</b>			<b>At 30 April</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year/period	—	(35)	4,996	3,557
Incorporation of a subsidiary with non-controlling interest	—	5,625	—	—
Total comprehensive expenses for the year/period	<u>(35)</u>	<u>(594)</u>	<u>(1,439)</u>	<u>(603)</u>
Balance at end of the year/period	<u><u>(35)</u></u>	<u><u>4,996</u></u>	<u><u>3,557</u></u>	<u><u>2,954</u></u>

**35. RETIREMENT BENEFITS PLAN**

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employees.

The subsidiary established in the PRC contributes based on certain percentage of the salaries of the employee to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and further retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

The total cost charged to consolidated statements of profit or loss and other comprehensive income of approximately RMB12,046,000, RMB18,537,000, RMB16,502,000, RMB5,749,000 and RMB5,425,000 represents contributions payable to these schemes by the Group during the year ended 31 December 2016, 2017, 2018 and the four months ended 30 April 2018 and 30 April 2019, respectively.

### 36. PLEDGE OF ASSETS

At 31 December 2016, 2017, 2018 and 30 April 2019, the Group had pledged or discounted the following assets to secure banking and borrowing facilities and factoring loan granted to the Group:

	At 31 December			At 30 April
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	245,772	191,395	87,161	208,126
Pledged bank deposits	—	14,340	24,639	64,273
Land and building	—	63,070	62,952	61,871
Total	<u>245,772</u>	<u>268,805</u>	<u>174,752</u>	<u>334,270</u>

### 37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remained unchanged during the Track Record Period.

The capital structure of the Group consists of amount due to a related company, borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through capital injection as well as the raise of additional borrowings as additional capital or the redemption of existing debt.

## 38. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	The Group			The Company		
	At 31 December			At 30	At 31	At 30
	2016	2017	2018	April	December	April
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>						
Financial assets at FVTPL	47,990	79,420	295,480	316,170	—	—
Loans and receivables/ at amortised cost (including bank balances and cash)	<u>372,284</u>	<u>346,847</u>	<u>507,787</u>	<u>642,645</u>	<u>88</u>	<u>74</u>
	<u>420,274</u>	<u>426,267</u>	<u>803,267</u>	<u>958,815</u>	<u>88</u>	<u>74</u>
<b>Financial liabilities</b>						
Financial liabilities measured at amortised cost	<u>528,117</u>	<u>772,462</u>	<u>843,297</u>	<u>984,357</u>	<u>7,950</u>	<u>17,178</u>

## (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, financial assets at FVTPL, amount due from non-controlling shareholder of a subsidiary, bank balances and cash, amount due from a shareholder, amount due from a related company, trade and bills payables and other payables and borrowings, amount due to a related company.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***(i) Currency risk*

The Group's major operating subsidiary has foreign currency sales, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk relates principally to its bank balances denominated in foreign currencies other than the functional currency of the relevant group entities.

The carrying amounts of the Group's monetary assets that are denominated in currencies other than the functional currencies of the relevant group entities at the end of each reporting period are as follows:

	At 31 December			At 30 April
	2016	2017	2018	2019
	Assets	Assets	Assets	Assets
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
USD	<u>471</u>	<u>317</u>	<u>635</u>	<u>—</u>

No sensitivity analysis is presented since the directors of the Company consider the exposure would be immaterial.

*(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to certain fixed rate borrowings (Note 28) and certain pledged bank deposits (Note 24). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to certain variable-rate pledged bank deposits (note 24), bank balances (note 25) and variable-rate bank borrowings (note 28). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of PBOC benchmark lending rate arising from the Group's variable-rate bank borrowings which are denominated in RMB.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk on borrowings at the end of the reporting period. The analysis is prepared assuming the borrowings outstanding at the end of each reporting period were outstanding for the whole year. No sensitivity analysis is provided on pledged bank deposits as the management of the Group considers that the interest rate fluctuation on pledged bank deposits is minimal and the impact from the exposure to interest rate risk sensitivity is considered insignificant. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Track Record Period and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately nil, RMB117,000, RMB106,000 and RMB103,000 for the years ended 31 December 2016, 2017, 2018 and for the period ended 30 April 2019 respectively.

### *Credit risk*

As at 31 December 2016, 2017 and 2018 and 30 April 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Under HKAS 39, impairment losses are made when there is objective evidence of impairment loss.

After adoption of HKFRS 9 as at 1 January 2018, in determining the ECL for trade and bills receivables, the management of the Group has taken into account the historical default experience and forward-looking information. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group applies the simplified approach to assess the expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and bills receivables. The directors of the Company are of the opinion that there was no significant default occurred on trade and bills receivables aged over 90 days having considered the management's historical experience on the settlement pattern or record from these debtors and forward looking information. In addition, the receivables balances are also monitored on ongoing basis. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In order to minimise the credit risk of other receivables, amount due from a shareholder, amount due from non-controlling shareholder of a subsidiary and amount due from a related company, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is considered minimal as such amounts are placed with banks with high credit ratings assigned by international credit-rating agencies.



The Group's concentration of credit risk by geographical location is mainly in India, which accounted for 32%, 41% and 21% of the total trade and bills receivables respectively as at 31 December 2016, 2017 and 2018. As at 30 April 2019, the Group's concentration of credit risk by geographical location is mainly in China, which accounted for 32% of the total trade and bills receivables.

The Group has concentration of credit risk as 29%, 7%, 7% and 32% of the total trade and bills receivables was due from the Group's largest customer respectively as at 31 December 2016, 2017, 2018 and 30 April 2019. 69%, 47% and 34% and 65% of the total trade and bills receivables was due from the Group's five largest customers respectively as at 31 December 2016, 2017, 2018 and 30 April 2019.

### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities as at 30 April 2019 under HKFRS 16. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the lease liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are prepared based on the agreed repayment dates. Specifically, borrowings with a repayment on demand clause are included in "Less than 1 year or on demand" band regardless of the probability of the financial institution choosing to exercise their rights.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	<b>The Group</b>		
	<b>Less than 1 year or on demand RMB'000</b>	<b>Total undiscounted cash flows RMB'000</b>	<b>Carrying Amount RMB'000</b>
<b>At 31 December 2016</b>			
Trade and bills payables	231,042	231,042	231,042
Accruals and other payables	47,958	47,958	47,958
Amounts due to a related company	3,345	3,345	3,345
Borrowings	<u>245,772</u>	<u>245,772</u>	<u>245,772</u>
	<u>528,117</u>	<u>528,117</u>	<u>528,117</u>

	The Group					Total undiscounted cash flows RMB'000	Carrying Amount RMB'000
	Less than 1 year or on demand RMB'000	More than 1 year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000		
<b>At 31 December 2017</b>							
Trade and bills payables	487,979	—	—	—	487,979	487,979	
Accruals and other payables	61,838	—	—	—	61,838	61,838	
Borrowings	194,444	4,507	12,536	17,606	229,093	222,645	
	<u>744,261</u>	<u>4,507</u>	<u>12,536</u>	<u>17,606</u>	<u>778,910</u>	<u>772,462</u>	
	The Group					The Company	
	Less than 1 year or on demand RMB'000	More than 1 year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying Amount RMB'000	Total undiscounted cash flows and carrying amount RMB'000
<b>At 31 December 2018</b>							
Trade and bills payables	646,529	—	—	—	646,529	646,529	—
Accruals and other payables	76,107	—	—	—	76,107	76,107	439
Amount due to subsidiaries	—	—	—	—	—	—	7,511
Borrowings	95,509	4,343	12,043	13,756	125,651	120,661	—
	<u>818,145</u>	<u>4,343</u>	<u>12,043</u>	<u>13,756</u>	<u>848,287</u>	<u>843,297</u>	<u>7,950</u>
	The Group					The Company	
	Less than 1 year or on demand RMB'000	More than 1 year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying Amount RMB'000	Total undiscounted cash flows and carrying amount RMB'000
<b>At 30 April 2019</b>							
Trade and bills payables	670,186	—	—	—	670,186	670,186	—
Accruals and other payables	65,787	—	—	—	65,787	65,787	1,719
Amount due to subsidiaries	—	—	—	—	—	—	15,459
Borrowings	223,994	4,302	11,919	12,819	253,034	248,384	—
	<u>959,967</u>	<u>4,302</u>	<u>11,919</u>	<u>12,819</u>	<u>989,007</u>	<u>984,357</u>	<u>17,178</u>
Lease liabilities	7,898	6,108	359	—	14,365	13,726	—

Borrowings with a repayment on demand clause is included in the “less than 1 year or on demand” time band in the above maturity analysis. As at 31 December 2016, 2017, 2018 and 30 April 2019, the aggregate undiscounted principal amounts of these borrowings amounted to RMB245,772,000, RMB151,395,000, RMB70,088,000 and RMB191,053,000 respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the financial institutions will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB245,917,000, RMB151,516,000 and RMB70,168,000 and RMB191,881,000 respectively. All borrowings with a “repayable on demand clause” are with scheduled repayment of less than 1 year.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of Track Record Period. The above financial liabilities of the Company are all repayable less than one year or on demand.

**(c) Fair values measurements recognised in the consolidated statement of financial position**

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring measurement, grouped into Level 2 based on the degree to which the fair value is observable in accordance with the Group’s accounting policy.

	At 31 December			At 30 April
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets at FVTPL</b>				
— Structured deposits	4,190	42,950	295,480	316,170
— Wealth management products	43,800	36,470	—	—
	<u>47,990</u>	<u>79,420</u>	<u>295,480</u>	<u>316,170</u>

The valuation method for fair value measurement of structure deposits refers to the price quotation from the issuing banks. For wealth management products which fair value measurement are determined by reference to the performance of investment portfolio of mainly debt securities without principal guaranteed, their fair value was quoted by the issuing banks.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair value due to their immediate or short-term maturities.

There were no transfers between levels of fair value hierarchy during the Track Record Period.

## 39. RELATED PARTY TRANSACTIONS

- (a) Save as disclosed elsewhere in the Historical Financial Information, during the Track Record Period, the Group has entered into the following transactions with related companies.

Related companies	Nature of transaction	Year ended 31 December			Four months ended 30 April	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000	2019 RMB'000
					(Unaudited)	
Shenzhen Mars	Sales	<u>67</u>	<u>3,204</u>	<u>2</u>	<u>—</u>	<u>—</u>
	Purchase	<u>4,388</u>	<u>3,821</u>	<u>—</u>	<u>—</u>	<u>—</u>
Shenzhen Guolin Technology Company Limited* ("Guolin")	Sales	<u>—</u>	<u>13</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes (i): These transactions were carried out at terms determined and agreed by the Group and the relevant parties.

(ii): As at 31 December 2016 the Group had amount due to Shenzhen Mars of approximately RMB4,345,000 and the balances was trade in nature and repayable in accordance with normal trading terms and within 30 days ageing from invoice date (see note 39(c)).

As at 31 December 2017 the Group had amount due from Shenzhen Mars of approximately RMB7,900,000 and the balance was unsecured, interest-free, repayable on demand and non-trade in nature (see note 39(c)).

Shenzhen Mars were controlled by the directors of the Company as at 31 December 2016 and 2017. During the year ended 31 December 2018, Shenzhen Mars and Guolin were disposed to an independent third party and ceased to be related companies of the Group. Amount due from Shenzhen Mars of approximately RMB5,774,000 was reclassified as other receivables as at 31 December 2018 and has been fully settled during the four months ended 30 April 2019 (see note 39(c)).

\* The English name is for identification only

**(b) Facilities**

During the Track Record Period. Certain facilities of borrowings were guaranteed by the directors of the Company, details have been set out in Note 28.

**(c)** The Group had the following balances with a related company during the Track Record Period:

*Trade related balances*

	At 31 December			At
	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Amount due to a related company				
Shenzhen Mars	<u>4,345</u>	<u>—</u>	<u>—</u>	<u>—</u>

*Note:* The amounts are unsecured, interest-free and repayable in accordance with normal trading terms and within 30 days aging from invoice date. For the outstanding balance due from or to Shenzhen Mars, net amount is presented as the Group has a legally enforceable right to set off the recognised amounts, and intends to settle on a net basis.

*Non-trade related balances*

	At 31 December			At
	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Amount due from a related company				
Shenzhen Mars	<u>1,000</u>	<u>7,900</u>	<u>—</u>	<u>—</u>
Maximum amount outstanding during the year				
Shenzhen Mars	<u>—</u>	<u>7,900</u>	<u>7,900</u>	<u>—</u>

(d) The Group had the following balances with a shareholder during the Track Record Period

*Non-trade related balances*

	At 31 December			At
	2016	2017	2018	30 April
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Amount due from a shareholder	<u>900</u>	<u>563</u>	<u>1,076</u>	<u>1,072</u>

*Note:* The amounts are unsecured, interest-free and repayable on demand.

(e) Compensation of key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors were as follows:

	Year ended 31 December			Four months ended 30 April	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term benefits	597	753	983	248	248
Post-employment benefits	<u>155</u>	<u>195</u>	<u>224</u>	<u>70</u>	<u>79</u>
	<u>752</u>	<u>948</u>	<u>1,207</u>	<u>318</u>	<u>327</u>

## 40. PARTICULARS OF SUBSIDIARIES

At as the date of this report, the Company has the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest and voting power attributable to the Company				Principal activity	Statutory auditor (note)	
			31 December		30 April				
			2016	2017	2018	2019			At the date of this report
<b>Directly held</b>									
Grace Kirin	BVI 28 June 2018	USD1	N/A	N/A	100%	100%	100%	Investment holding	(d)
<b>Indirectly held</b>									
Sprocomm Intelligence (HK) Limited	Hong Kong 27 August 2018	HK\$10,000	N/A	N/A	100%	100%	100%	Investment holding	(e)
Shenzhen Sprocomm*	PRC 16 September 2009	RMB55,556,000	100%	100%	100%	100%	100%	Trading of featured phones and smart phone	(a)(i)
Shanghai Sprocomm*	PRC 24 November 2009	RMB2,000,000	100%	100%	100%	100%	100%	Research and development of cloud computing and related technology	(a)(ii)
Guizhou Sprocomm*	PRC 8 June 2016	RMB5,000,000	100%	100%	100%	100%	100%	Research and development of cloud computing and related technology	(a)(iii)
Chengdu Sprocomm*	PRC 2 August 2017	RMB15,000,000	N/A	62.5%	62.5%	62.5%	66.67%	Research and development of cloud computing and related technology	(a)(iv)
HK Sprocomm	Hong Kong 15 January 2016	USD50,000	100%	100%	100%	100%	100%	Trading of featured phones and smart phone	(b)
Sprocomm Technologies India	India 24 August 2016	INR145,647	82.03%	82.03%	82.03%	82.03%	82.03%	Customer service and technical support	(c)
Sprocomm Communication Technology (Wuxi) Co. Ltd.* ("Wuxi Sprocomm")	PRC 19 March 2010	RMB10,000,000	100%	N/A	N/A	N/A	N/A	Research and development of cloud computing and related technology	(a)(v)(f)
Guizhou Mars*	PRC 29 June 2016	RMB5,000,000	100%	100%	100%	100%	100%	Research and development of cloud computing and related technology	(a)(vi)
Luzhou Sipukang*	PRC 1 September 2017	RMB100,000,000	N/A	100%	100%	100%	100%	Manufacturing of feature phones and smart phones	(a)(vii)

\* The English name is for identification only.

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date, except for Sprocomm Technologies India which have a year-end date of 31 March.

*Notes:*

- (a) Auditors for the statutory financial statements of these subsidiaries for the Track Record Period were as follows:
- (i) Shenzhen Yida Certified Public Accountants Co., Ltd. for the years ended 31 December 2016, 2017 and 2018.
  - (ii) Shanghai Chenghui Certified Public Accountants Co., Ltd. for the year ended 31 December 2016; Shanghai Zhaoxin Certified Public Accountants for the years ended 31 December 2017 and 2018.
  - (iii) Shenzhen Yida Certified Public Accountants Co., Ltd. for the period from 8 June 2016 to 31 December 2016; Pan-China Certified Public Accountants Shenzhen Branch for the years ended 31 December 2017 and 2018.
  - (iv) Pan-China Certified Public Accountants Shenzhen Branch for the period from 2 August 2017 to 31 December 2017 and for the year ended 31 December 2018.
  - (v) Shenzhen Yida Certified Public Accountants Co., Ltd. for the year ended 31 December 2016.
  - (vi) 貴州正信會計師事務所有限公司 for the period from 29 June 2016 to 31 December 2016; Pan-China Certified Public Accountants Shenzhen Branch for the years ended 31 December 2017 and 2018; and
  - (vii) Pan-China Certified Public Accountants Shenzhen Branch for period from 1 September 2017 to 31 December 2017 and for the year ended 31 December 2018.
- (b) The statutory financial statements of HK Sprocomm for the period from 15 January 2016 to 31 December 2016 and for the year ended 31 December 2017 and 2018 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by W. H. Shum & Co, a Certified Public Accountant registered in Hong Kong.
- (c) Sprocomm Technologies India was incorporated in India and is owned as to 82.03% by HK Sprocomm, 17.79% by an employee of Shenzhen Sprocomm, Mr. Lin Gui Kai, and 0.18% by an independent third party, Mr. Anil Ji Garg. The statutory financial statements of this subsidiary for the period from 24 August 2016 to 31 March 2017 and for year ended 31 March 2018 were audited by Lohiya & Co. Chartered Accountants.
- (d) No audited statutory financial statements have been issued for the subsidiaries as they are newly incorporated and not required to issue audited financial statements under the statutory requirements of their place of incorporation.
- (e) No audited statutory financial statement has been prepared for the Track Record Period because it was incorporated in August 2018.
- (f) During the year ended 31 December 2017, the Group deregistered a subsidiary, Wuxi Sprocomm. The deregistered subsidiary did not have significant contribution to the Group's revenue, result and cashflow for the year.



## 41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statements of cash flows as cash flows from financing activities.

	<b>Borrowings</b>	<b>Interest</b>	<b>Dividend</b>	<b>Lease</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2016	—	—	—	—	—
Non-cash movements					
Exchange realignment	11,816	—	—	—	11,816
Finance costs incurred ( <i>Note 9</i> )	—	1,400	—	—	1,400
Financing cash inflows	655,388	—	—	—	655,388
Financing cash outflows	<u>(421,432)</u>	<u>(1,400)</u>	<u>—</u>	<u>—</u>	<u>(422,832)</u>
As at 31 December 2016 and 1 January 2017	245,772	—	—	—	245,772
Non-cash movements					
Exchange realignment	(13,395)	—	—	—	(13,395)
Dividend declared ( <i>Note 14</i> )	—	—	20,000	—	20,000
Finance costs incurred ( <i>Note 9</i> )	—	7,459	—	—	7,459
Financing cash inflows	1,050,234	—	—	—	1,050,234
Financing cash outflows	<u>(1,059,966)</u>	<u>(7,459)</u>	<u>(20,000)</u>	<u>—</u>	<u>(1,087,425)</u>
As at 31 December 2017 and 1 January 2018	222,645	—	—	—	222,645
Non-cash movements					
Exchange realignment	5,055	—	—	—	5,055
Finance costs incurred ( <i>Note 9</i> )	—	15,884	—	—	15,884
Financing cash inflows	492,790	—	—	—	492,790
Financing cash outflows	<u>(599,829)</u>	<u>(15,884)</u>	<u>—</u>	<u>—</u>	<u>(615,713)</u>
As at 31 December 2018	<u>120,661</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,661</u>
Impact on initial adoption of HKFRS16	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,664</u>	<u>16,664</u>
As at 1 January 2019	120,661	—	—	16,664	137,325
Non-cash movements					
Exchange realignment	5,860	—	—	—	5,860
Finance costs incurred ( <i>Note 9</i> )	—	4,802	—	298	5,100
Financing cash inflows	439,447	—	—	—	439,447
Financing cash outflows	<u>(317,584)</u>	<u>(4,802)</u>	<u>—</u>	<u>(3,236)</u>	<u>(325,622)</u>
As at 30 April 2019	<u>248,384</u>	<u>—</u>	<u>—</u>	<u>13,726</u>	<u>262,110</u>

**42. OPERATING LEASES COMMITMENT****The Group as lessee**

The Group leases its factory and warehouses under operating lease arrangements. Leases are negotiated for lease terms of one to six years and rentals are fixed at the inception of respective leases. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	7,127	9,762	9,619
In the second to fifth year (inclusive)	<u>18,028</u>	<u>15,181</u>	<u>9,703</u>
	<u><u>25,155</u></u>	<u><u>24,943</u></u>	<u><u>19,322</u></u>

*Note:* Lease liabilities in respect of leases with lease terms of over 12 months (except for those with remaining lease term of 12 months or less as at 1 January 2019) are set out in Note 17. Commitments disclosed as at 31 December 2016, 2017 and 2018 represent future minimum lease payments under non-cancellable operating leases as defined under HKAS 17.

**43. LITIGATIONS**

During the Track Record Period, there were a number of legal claims arising from the normal course of business being lodged against the Group and no specific claim amount has been specified in the applications of these claims except as detailed below. In the opinion of the directors of the Group and after consulting the legal professional advice, the ultimate liability under these claims would not have a material adverse impact on the financial position or results of the Group.

- (i) On 18 July 2016, a supplier who is an independent third party, as plaintiff, filed a claim at Shenzhen Futian People's Court (深圳市福田区人民法院) (the "**Futian Court**") for approximately RMB1,600,000 of outstanding payment for goods delivered and the interest against Shenzhen Sprocomm. Shenzhen Sprocomm received a civil judgement from Shenzhen Futian People's Court on 30 November 2018 that it shall pay (1) approximately RMB747,000 of outstanding payment for goods delivered and the interest to the plaintiff, and (2) RMB11,268 of case acceptance fee to the court. Shenzhen Sprocomm has filed an appeal at Shenzhen Intermediate People's Court (深圳市中級人民法院) (the "**Intermediate Court**") on 17 December 2018 and the hearing was held on 30 May 2019. A provision for claim of approximately RMB758,000 was made during the year ended 31 December 2018 and recognised in the administrative expenses in the consolidated statements of profit or loss and other comprehensive income and the other payable in the consolidated statements of financial position. On 11 June 2019, the

Intermediate Court ruled to dismiss the appeal and maintained the decision made by the Futian Court. The Group fulfilled the decision on 9 August 2019 with a final settlement of approximately RMB879,000 and the case was closed.

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

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

During the year ended 31 December 2018, the legal proceeding is still in progress and the directors of the Company, with reference to legal opinion obtained and available information, considered that the maximum exposure including of total claims and legal cost of approximately RMB1,025,000, the provision (the “**Provision**”) was made during the year ended 31 December 2018 and recognised in the administrative expenses in the consolidated statements of profit or loss and other comprehensive income and the other payable in the consolidated statements of financial position.

On 8 April 2019, Beijing First Intermediate People’s Court dismissed the Joint Lawsuit and no appeal on the ruling has been filed by the plaintiff within the statutory time limitation and the case was closed.

On 7 May 2019, the plaintiff separately filed another lawsuit at Beijing Haidian District People’s Court against Shenzhen Sprocomm and the First Defendant for the repayment of the outstanding accounts receivable under the factoring agreement in the amount of RMB29.2 million (the “**Relevant Sum**”) and the relevant interests. As at the date of this report, the hearing date of this case had not yet been confirmed. The directors of the Company, with reference to the legal opinion obtained and available information, considered that the Provision has adequately covered the maximum exposure including of total claims and legal cost of the case.

**44. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements, the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 30 April 2019.

**45. EVENTS AFTER THE REPORTING PERIOD****(i) Capitalisation Issue**

Pursuant to shareholders' written resolution passed on 18 October 2019, the authorised share capital of the Company increased upon capitalisation of certain sums standing to the credit of the share premium account of the Company (the "**Capitalisation Issue**"). Details of the Capitalisation Issue are set out in the section headed "Statutory and general information" in the Prospectus.

**(ii) Share Option Scheme**

Pursuant to shareholders' written resolution passed on 18 October 2019, a share option scheme has been conditionally adopted by the Company (the "**Share Option Scheme**"). The principal terms of the Share Option Scheme are summarized in "Statutory and general information — Other information — 1. Share Option Scheme" to the Prospectus. No share option has been granted under the Share Option Scheme up to the date of this report.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set out in this appendix does not form part of the Accountants' Report prepared by the reporting accountants of the Company, SHINEWING (HK) CPA Limited, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and "Accountants' Report" as set out in Appendix I to this prospectus.

**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the basis set out below is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019, as if the Global Offering had taken place on 30 April 2019.

As it is prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019 or at any future dates following the completion of the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019 derived from the Accountants' Report of the Group, the text of which is set out in Appendix I to this prospectus, after incorporating the unaudited pro forma adjustments as described in the accompanying notes below.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2019</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share as at 30 April 2019</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on the Offer Price of HK\$0.5 per share	<u>170,365</u>	<u>77,954</u>	<u>248,319</u>	<u>0.25</u>	<u>0.29</u>
Based on the Offer Price of HK\$0.6 per share	<u>170,365</u>	<u>97,949</u>	<u>268,314</u>	<u>0.27</u>	<u>0.31</u>

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2019 is based on net assets attributable to owners of the Company of RMB175,378,000 after adjusting for the intangible assets of RMB5,013,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 250,000,000 Offer Shares at the indicative Offer price of HK\$0.5 per Share (being the low-end of the indicative Offer Price range) or HK\$0.6 per Share (being the high-end of the indicative Offer Price range) after deduction of the underwriting commission and other related expenses payable by the Company in relation to the Global Offering. The estimated net proceeds do not take into account any shares which may be allotted and issued upon the exercise of any option granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue shares and general mandate to repurchase shares as described in the section headed "Share Capital" of this prospectus.

The estimated net proceed from the Global offering is converted from HK dollars into RMB at the rate of HK\$1.00 to RMB0.86. No representation is made that HK dollars amount have, could have or could be converted to RMB, or vice versa at that rate, at any other rates or at all.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share is calculated based on 1,000,000,000 shares in issue (including shares in issue as at the date of this prospectus and those Shares expected to be issued pursuant to the Global Offering and the Capitalisation Issue but not taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme).
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is translated to Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.86. No representation is made that the Renminbi amounts have been, could have been or may have converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2019.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.*



SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT  
ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION  
TO THE DIRECTORS OF SPROCOMM INTELLIGENCE LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sprocomm Intelligence Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owner of the Company as at 30 April 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus (the “**Prospectus**”) dated 30 October 2019 in connection with the proposed global offering (the “**Global Offering**”) of the shares of the Company on Main Board of The Stock Exchange of Hong Kong Limited. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in notes to the unaudited pro forma financial information in the Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Global Offering on the Group’s net tangible assets as of 30 April 2019 as if the Global Offering had taken place at 30 April 2019. As part of this process, information about the Group’s financial position has been extracted by the directors of the Company from the Group’s financial information for the three years ended 31 December 2018 and the four months ended 30 April 2019, on which an accountants’ report has been included in the Appendix I to the Prospectus.

**Directors’ Responsibility for the Unaudited pro forma Financial Information**

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of the Global Offering on unadjusted financial information of the Group as if the Global Offering had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering at 30 April 2019 would have been as presented.



A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

Wong Chuen Fai

Practising Certificate Number: P05589

Hong Kong

30 October 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Islands company laws.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 August 2018 under the Cayman Islands Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the *Memorandum*) and its Amended and Restated Articles of Association (the *Articles*).

## 1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 18 October 2019. A summary of certain provisions of the Articles is set out below.

### 2.1 Shares

#### (a) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (b) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Islands Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly

authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

***(c) Alteration of capital***

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

***(d) Transfer of shares***

Subject to the Cayman Islands Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(e) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

*(f) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

*(g) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

## 2.2 Directors

### *(a) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***(b) Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Islands Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.



The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Islands Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(c) Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Islands Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***(d) Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Islands Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.



*(e) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(f) Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(g) Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(h) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

### **2.3 Proceedings of the Board**

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### **2.4 Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

### **2.5 Meetings of member**

#### ***(a) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Islands Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

*(b) Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

*(c) Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

*(d) Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Islands Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*(e) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

*(f) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.



*(g) Members' requisition for meetings*

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

**2.6 Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Islands Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Islands Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.



The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

### **2.7 Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

## **2.8 Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

**2.9 Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarised in paragraph 3.6 of this Appendix.

**2.10 Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Islands Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

**2.11 Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Islands Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

### 3. CAYMAN ISLANDS COMPANY LAWS

The Company was incorporated in the Cayman Islands as an exempted company on 15 August 2018 subject to the Cayman Islands Companies Law. Certain provisions of the Cayman Islands company laws are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### 3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### 3.2 Share capital

Under the Cayman Islands Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Islands Companies Law;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

### **3.3 Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **3.4 Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Islands Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Islands Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands laws that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **3.5 Dividends and distributions**

Subject to a solvency test, as prescribed in the Cayman Islands Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

### **3.6 Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

### **3.7 Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**3.8 Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**3.9 Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**3.10 Taxation**

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**3.11 Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**3.12 Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**3.13 Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.



**3.14 Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

**3.15 Register of Directors and officers**

Pursuant to the Cayman Islands Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and where applicable the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

**3.16 Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.



As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **3.17 Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### **3.18 Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that

four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **3.19 Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

### **3.20 Economic substance**

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Law, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. A Cayman Islands company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it would be required to satisfy an economic substance test.

## **4. GENERAL**

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Islands Companies Law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of the Cayman Islands company laws or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 15 August 2018.

Our Company has been registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 12 October 2018 and its principal place of business in Hong Kong is at Room A, 12/F, Granville House, 41C Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong. Ms. Jian Xuegen has been appointed as our authorised representative for the acceptance of service of process in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to the Cayman Islands law. Its constitution comprises Memorandum of Association and Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Cayman Islands Companies Law is set out in Appendix III to this prospectus.

**2. Changes in the share capital of our Company***(a) Authorised share capital*

As at the date of incorporation of our Company on 15 August 2018, our authorised share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each.

On 18 October 2019, the authorised share capital of our Company was further increased to HK\$100,000,000 divided into 10,000,000,000 Shares by creation of 9,962,000,000 Shares.

Immediately following the completion of the Capitalisation Issue and the Global Offering but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid, and 9,000,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which have been or may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in paragraphs headed “3. Resolutions in writing of our Shareholders passed on 18 October 2019” and “4. Group reorganisation” of this appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions in writing of our Shareholders passed on 18 October 2019**

Written resolutions were passed by our Shareholders on 18 October 2019 pursuant to which, among other matters:

- (a) our Company approved and adopted the Articles of Association with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates or may be specified in the Underwriting Agreements;
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue of the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 13 of this appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$7,494,444.44 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,444,444 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on the day prior to the Listing Date (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate number of Shares of not exceeding the sum of (aa) 20% of the aggregate number of issued Shares immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the aggregate number of such Shares which may be repurchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association, the Cayman Islands Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate number of Shares not exceeding 10% of the aggregate number of issued Shares immediately following the completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above;
- (d) our Company approved the form and substance of each of the service contracts made between each of our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Director and independent non-executive Directors with our Company.

#### 4. Group reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange. For more details regarding the Reorganisation, please see "History, development and Reorganisation — Reorganisation" in this prospectus.

#### 5. Changes in number of shares or share capital of subsidiaries

Save as disclosed in "History, development and Reorganisation" in this prospectus, there has not been any changes in the number of shares or the share capital to any of our subsidiaries within the two years preceding to the date of this prospectus.

#### 6. Securities repurchase mandate

##### *Restriction on share repurchase*

The Listing Rules permits companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

##### *(a) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 18 October 2019, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of issued Shares immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association, the Cayman Islands Companies Law or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

*(b) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Cayman Islands Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company, out of the share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

Any premium payable on a repurchase over the par value of the Shares to be repurchased must be provided for out of either or both of the profits of our Company or the share premium account of our Company before or at the time such Shares are repurchased or, if authorised by the Articles of Association and subject to the provisions of the Cayman Islands Companies Law, out of capital.

*(c) Reasons for repurchases*

Our Directors believe that it is in the best interest of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

*(d) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.



The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the Listing (but taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), would result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates has a present intention, in the event that the Repurchase Mandate is approved by our Shareholders, to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged under Rule 26 of the Takeovers Code to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so in the event that our Company is authorised to make purchases of Shares.



## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

## 1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the Pre-IPO Capital Increase Agreement;
- (b) the Deed of Indemnity; and
- (c) the Hong Kong Underwriting Agreement.

## 2. Intellectual property rights



*(a) Trademarks*

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following material trademarks:

No.	Trademark	Place of registration	Registration number	Class(es)	Registration date	Expiry date	Name of registered Proprietor
1.	<b>Sprocomm</b>	PRC	7858213	9	14 August 2011	13 August 2021	Shenzhen Sprocomm
2.	HEMIAO	PRC	8189078	9	14 July 2011	13 July 2021	Shenzhen Sprocomm
3.	HMT	PRC	8189117	9	14 July 2011	13 July 2021	Shenzhen Sprocomm
4.	<b>禾苗通信</b>	PRC	8892642	9	14 December 2011	13 December 2021	Shenzhen Sprocomm
5.	<b>禾苗</b>	PRC	8892623	9	14 December 2011	13 December 2021	Shenzhen Sprocomm
6.		PRC	8892624	9	28 January 2012	27 January 2022	Shenzhen Sprocomm
7.	<b>火星探索</b>	PRC	16497689	7	28 April 2016	27 April 2026	Shenzhen Sprocomm
8.	<b>火星探索</b>	PRC	16497824	39	21 May 2017	20 May 2027	Shenzhen Sprocomm
9.		PRC	23683342A	9	17 June 2018	16 June 2028	Shenzhen Sprocomm

No.	Trademark	Place of registration	Registration number	Class(es)	Registration date	Expiry date	Name of registered Proprietor
10.	智联锁	PRC	28843245	28	21 December 2018	20 December 2028	Shenzhen Sprocomm
11.	智联锁	PRC	28832733	35	21 December 2018	20 December 2028	Shenzhen Sprocomm

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

No.	Trademark	Place of registration	Class(es)	Application number	Application date	Applicant
1.	Orléan	PRC	9	32644940	2 August 2018	Shenzhen Sprocomm
2.	Orléan	PRC	7	32644944	2 August 2018	Shenzhen Sprocomm
3.	Orléan	PRC	11	32657310	2 August 2018	Shenzhen Sprocomm
4.	欧宁	PRC	9	31748482	21 June 2018	Shenzhen Sprocomm
5.		PRC	9	31734021	21 June 2018	Shenzhen Sprocomm
6.	HEMIAO	PRC	9	31752200	21 June 2018	Shenzhen Sprocomm
7.	禾苗	PRC	9	31753782	21 June 2018	Shenzhen Sprocomm
8.	Sprocomm	Hong Kong	9, 12, 28, 35, 42	304665899	11 September 2018	Shenzhen Sprocomm
9.		Hong Kong	9, 12, 28, 35, 42	304665880	11 September 2018	Shenzhen Sprocomm

#### (b) Patents

As at the Latest Practicable Date, we had registered the following patents which we believe are material to our business:

No.	Patent	Patentee	Place of registration	Patent No.	Application Date	Expiry Date
1.	Communication Terminal based on Android System* (一種基於安卓系統的通訊終端)	Shenzhen Sprocomm	PRC	ZL201320516126.5	14 August 2013	14 August 2023
2.	Wireless Remote Control Data Transmission Video Detection Vehicle Intelligent System* (一種無線遙控資料傳輸視頻探測車智能系統)	Shenzhen Sprocomm	PRC	ZL201520182115.7	28 March 2015	28 March 2025

No.	Patent	Patentee	Place of registration	Patent No.	Application Date	Expiry Date
3.	Landing Gear and Propeller Guard Sharing Device* (一種起落架和螺旋槳護板共用裝置)	Shenzhen Sprocomm	PRC	ZL201520182814.1	28 March 2015	28 March 2025
4.	Multi-device Wireless Communication System for Smart Home Short-Range Communication* (一種用於智能家居近距離通訊的多機無線通訊系統)	Shenzhen Sprocomm	PRC	ZL201520180478.7	28 March 2015	28 March 2025
5.	Detachable and Portable Landing Gear* (一種可拆卸式自選位置便攜起落架)	Shenzhen Sprocomm	PRC	ZL201520186628.5	28 March 2015	28 March 2025
6.	Locknut for the Propeller of Unmanned Aerial Vehicle* (一種無人機螺旋槳的鎖緊螺母)	Shenzhen Sprocomm	PRC	ZL201520280906.3	5 May 2015	5 May 2025
7.	Power Collector Data Transmission Module* (電力採集器資料傳輸模組)	Shenzhen Sprocomm	PRC	ZL201120094094.5	2 April 2011	2 April 2021
8.	Time Division — Synchronisation Code Division Multiple Access and Network System* (時分同步碼分多址多路無線接入台以及網路系統)	Shenzhen Sprocomm	PRC	ZL201120067059.4	7 March 2011	7 March 2021
9.	Dual Customer Identification Switching Circuit and Mobile Terminal Connecting to that Circuit* (雙客戶識別模板切換電路以及帶該電路的手機終端)	Shenzhen Sprocomm	PRC	ZL201120067068.3	7 March 2011	7 March 2021
10.	Wireless Storage System* (無線存儲系統)	Shenzhen Sprocomm	PRC	ZL201120085575.X	28 March 2011	28 March 2021
11.	Hand-held Gimbal Connected by Connector Bolts as Photographic Lines* (一種通過連接螺栓頭作為拍照線來連接的手持雲台)	Shenzhen Sprocomm	PRC	ZL201620842584.1	4 August 2016	4 August 2026
12.	Ultra-narrow Framed LCD Backlight* (一種超窄邊框化LCD背光源)	Shenzhen Sprocomm	PRC	ZL201721150076.8	8 September 2017	8 September 2027
13.	LC Low Pass Filter* (LC低通濾波器)	Shenzhen Sprocomm	PRC	201721443913.6	2 November 2017	2 November 2027

No.	Patent	Patentee	Place of registration	Patent No.	Application Date	Expiry Date
14.	LC Balun Filter* (LC巴倫濾波器)	Shenzhen Sprocomm	PRC	201721444050.4	2 November 2017	2 November 2027
15.	Battery Connector Compression Device* (電池連接器壓緊裝置)	Shenzhen Sprocomm	PRC	201721460804.5	2 November 2017	2 November 2027
16.	Backlight Light-Shielding Glue* (一種背光用遮光膠)	Shenzhen Sprocomm	PRC	201721729654.3	13 December 2017	13 December 2027
17.	Dismantling Shaft Structure for Folding Mobile Phone* (一種折疊手機的拆轉軸結構)	Shenzhen Sprocomm	PRC	201721897812.6	29 December 2017	29 December 2027
18.	Rotating Shaft Grounding Elastic Structure for Folding Mobile Phone* (一種折疊手機的轉軸接地彈片結構)	Shenzhen Sprocomm	PRC	201721900945.4	29 December 2017	29 December 2027
19.	SIM Card Clamping Structure* (一種SIM卡的卡緊結構)	Shenzhen Sprocomm	PRC	201721886405.5	28 December 2017	28 December 2027
20.	Mainboard PCB for Mobile Terminal and Mobile Terminal* (一種用於移動終端的主機板PCB及移動終端)	Shenzhen Sprocomm	PRC	201721870094.3	27 December 2017	27 December 2027
21.	Waterproof Shared Bicycle Lock* (一種防水共用單車鎖)	Shenzhen Sprocomm	PRC	201721862385.8	27 December 2017	27 December 2027
22.	Battery Compartment and Electronic Product* (一種電池倉及電子產品)	Shenzhen Sprocomm	PRC	201820082144.X	17 January 2018	17 January 2028
23.	ZIF Connector Reinforcement Structure* (一種ZIF連接器補強結構)	Shenzhen Sprocomm	PRC	201820015148.6	4 January 2018	4 January 2028
24.	Case for Mobile Electronic Devices* (一種移動電子設備外殼)	Shenzhen Sprocomm	PRC	ZL201820028665.7	5 January 2018	5 January 2028
25.	Improper Power Loss and Foolproof Liquid Crystal Display Testing Device* (一種非法掉電防呆液晶顯示屏測試設備)	Shenzhen Sprocomm	PRC	ZL201820145050.2	29 January 2018	29 January 2028
26.	Device for Collecting Electric Meter Data* (一種可採集電度錶讀數資訊的裝置)	Shenzhen Sprocomm	PRC	201820354622.8	15 March 2018	15 March 2028
27.	Magnetic Logistics Lock* (一種裝備磁鐵的物流鎖)	Shenzhen Sprocomm	PRC	201721177485.7	14 September 2017	14 September 2027

No.	Patent	Patentee	Place of registration	Patent No.	Application Date	Expiry Date
28.	Detachable Hand-held Gimbal Clamp and Its Compatible Connector* (一種可拆卸的手持雲台夾子及與其相配合的連接座)	Shenzhen Sprocomm	PRC	ZL201721539480.4	15 November 2017	15 November 2027
29.	Smart Phone (H1)* (智能手機 (H1))	Shenzhen Sprocomm	PRC	ZL201530137009.2	12 May 2015	12 May 2025
30.	Hand-held Gimbal (G2-A)* (手持雲台 (G2-A))	Shenzhen Sprocomm	PRC	ZL201630282962.0	27 June 2016	27 June 2026
31.	Mobile Phone for Elderly (Doro)* (老年人手機 (Doro))	Shenzhen Sprocomm	PRC	ZL201730421590.X	7 September 2017	7 September 2027
32.	Shared Bicycle Smart Lock (S10)* (共用單車智能鎖(S10))	Shenzhen Sprocomm	PRC	ZL201730421588.2	7 September 2017	7 September 2027
33.	Smart Phone (PC5008XL)* (智能手機 (PC5008XL))	Shenzhen Sprocomm	PRC	ZL201730421593.3	7 September 2017	7 September 2027
34.	Smart Inner Door Lock* (智能內門鎖)	Shenzhen Sprocomm	PRC	ZL201830123155.3	29 March 2018	29 March 2028
35.	Broadband 4G Mobile Phone Antenna for Flexible Printed Circuit* (一種基於柔性電路板的寬頻4G手機天線)	Shanghai Sprocomm	PRC	ZL201721376593.3	24 October 2017	24 October 2027

**(c) Software copyrights**

As at the Latest Practicable Date, we had registered the following software copyrights which we believe are material to our business:

No.	Software Copyright	Registered owner	Place of registration	Registration No.	Registration date
1.	Sprocomm Online Mall System Design Software V1.0* (禾苗通信在線商城系統設計軟件V1.0)	Shenzhen Sprocomm	PRC	2015SR098199	4 June 2015
2.	Sprocomm E-Commerce Shopping Cart Implementation Software V1.0* (禾苗通信電子商務購物車實現軟件V1.0)	Shenzhen Sprocomm	PRC	2015SR098205	4 June 2015
3.	Sprocomm Online Educational Management System Software (abbr.: Online Educational Management System Software) V1.0* (禾苗通信在線教務管理系統軟件(簡稱：線上教務管理系統軟件) V1.0)	Shenzhen Sprocomm	PRC	2015SR158116	17 August 2015

No.	Software Copyright	Registered owner	Place of registration	Registration No.	Registration date
4.	Sprocomm Customers Relationship Management Software V1.0* (禾苗通信客戶關係管理系統軟件V1.0)	Shenzhen Sprocomm	PRC	2015SR161578	20 August 2015
5.	Sprocomm Online Video Player Software V1.0* (禾苗通信在線視頻播放軟件V1.0)	Shenzhen Sprocomm	PRC	2015SR175657	10 September 2015
6.	Sprocomm Online Group Purchase and Direct Marketing System Software V1.0* (禾苗通信在線團購直銷系統軟件V1.0)	Shenzhen Sprocomm	PRC	2015SR189324	29 September 2015
7.	Power Data Acquisition Transmission Unit Module Software (abbr.: DG101) V1.0* (電力數據採集傳輸單元模組軟件(簡稱: DG101) V1.0)	Shenzhen Sprocomm	PRC	2017SR241017	7 June 2017
8.	Sprocomm Mind Mapping Software (abbr.: Mind Mapping App) V1.0* (禾苗通信思維導圖製作軟件(簡稱: 思維導圖app) V1.0)	Shenzhen Sprocomm	PRC	2017SR646861	24 November 2017
9.	Sprocomm — Dynamically Acquisition of Binder Communication Process Software (abbr.: Acquisition of Binder Communication Process Software) V1.0* (禾苗通信 — 動態獲取binder通信進程軟件(簡稱: 獲取binder通信進程軟件) V1.0)	Shenzhen Sprocomm	PRC	2017SR656364	29 November 2017
10.	Sprocomm Orlean Smart Door Lock APP Software (abbr.: Orlean Smart Door Lock APP) V1.0* (禾苗通信Orlean智能門鎖APP軟件(簡稱: Orlean智能門鎖APP) V1.0)	Shenzhen Sprocomm	PRC	2018SR663206	20 August 2018
11.	Sprocomm Cloud Platform System Software (abbr.: Cloud Platform Software) V1.0 (禾苗雲平台系統軟件(簡稱: 雲平台軟件) V1.0)	Chengdu Sprocomm	PRC	2018SR042092	18 January 2018
12.	Sprocomm Cloud Desktop and Cloud Terminal Software (abbr.: Cloud Desktop and Cloud Terminal Software) V1.0* (禾苗雲桌面及雲終端軟件(簡稱: 雲桌面及雲終端軟件) V1.0)	Chengdu Sprocomm	PRC	2018SR149656	7 March 2018
13.	Sprocomm Cloud Desktop Android User Side Software* (禾苗雲桌面Android客戶端軟件)	Chengdu Sprocomm	PRC	2018SR342698	16 May 2018
14.	Sprocomm Classroom Teacher Side Software V1.0* (禾苗雲課堂教師端軟件V1.0)	Chengdu Sprocomm	PRC	2018SR659366	17 August 2018

No.	Software Copyright	Registered owner	Place of registration	Registration No.	Registration date
15.	Agricultural Integrated Service Platform Mobile Application Software V1.0* (農業綜合服務平台手機應用軟件V1.0)	Chengdu Sprocomm	PRC	2018SR661619	20 August 2018
16.	Agricultural Integrated Service Platform Management Software V1.0* (農業綜合服務平台管理軟件V1.0)	Chengdu Sprocomm	PRC	2018SR659179	17 August 2018
17.	IoT Device Cloud Service Platform Software V1.0* (物聯網設備雲服務平台軟件V1.0)	Chengdu Sprocomm	PRC	2018SR726810	10 September 2018
18.	Positioning Equipment Integrated Management Service Platform Software V1.0* (定位設備綜合管理服務平台軟件V1.0)	Chengdu Sprocomm	PRC	2018SR958417	29 November 2018
19.	Sprocomm Virtualisation Platform Management Software V1.0* (禾苗虛擬化平台管理軟件V1.0)	Chengdu Sprocomm	PRC	2018SR966634	3 December 2018
20.	Sprocomm Serial Port Redirect Cloud Desktop and Cloud Terminal Software V1.1* (禾苗串口重定向雲桌面及雲終端軟件V1.1)	Chengdu Sprocomm	PRC	2018SR970098	3 December 2018
21.	Sprocomm Classroom Teacher Side Software V2.0* (禾苗雲課堂教師端軟件V2.0)	Chengdu Sprocomm	PRC	2018SR969390	3 December 2018
22.	Guizhou Mars Shake and Change Wallpaper Software (abbr.: Shake and Change Wallpaper) V1.0* (貴州火星搖一搖更換壁紙軟件(簡稱:搖一搖更換壁紙)V1.0)	Guizhou Mars	PRC	2018SR418028	5 June 2018
23.	Guizhou Mars Toolkit Software (abbr.: Toolkit) V1.0* (貴州火星Toolkit(簡稱:Toolkit)V1.0)	Guizhou Mars	PRC	2018SR419370	5 June 2018
24.	Guizhou Mars Bangbang Dictionary Translation Software (abbr.: Bangbang Dictionary) V1.0* (貴州火星幫幫詞典翻譯軟件(簡稱:幫幫詞典)V1.0)	Guizhou Mars	PRC	2018SR419363	5 June 2018
25.	Guizhou Mars Network News Metadata Automatic Extraction and Retrieval System Software (abbr.: Network News Metadata Automatic Extraction and Retrieval System) V1.0* (貴州火星網絡新聞元數據自動抽取與檢索系統軟件(簡稱:網路新聞元數據自動抽取與檢索系統)V1.0)	Guizhou Mars	PRC	2018SR414828	4 June 2018

No.	Software Copyright	Registered owner	Place of registration	Registration No.	Registration date
26.	Guizhou Mars Online Course Selection System (abbr.: Guizhou Mars Online Course Selection System) V1.0* (貴州火星網上選課系統(簡稱: 貴州火星網上選課系統)V1.0)	Guizhou Mars	PRC	2018SR415030	4 June 2018
27.	Guizhou Mars Sprocomm Mobile Manager Software (abbr.: MobileManager) V1.0* (貴州火星禾苗通信手機管家軟件(簡稱: 手機管家)V1.0)	Guizhou Mars	PRC	2018SR415032	4 June 2018
28.	Guizhou Mars Plastic Ring Address Book Software* (貴州火星塑料圈通訊錄軟件)	Guizhou Mars	PRC	2018SR414824	4 June 2018
29.	Guizhou Mars Android Block Third Parties SDK Push Function System (abbr.: Block Third Parties Push System) V1.0* (貴州火星Android屏蔽第三方SDK推送功能軟件(簡稱: 屏蔽第三方推送軟件)V1.0)	Guizhou Mars	PRC	2018SR417458	5 June 2018
30.	Guizhou Mars Calculation Software (abbr.: Calculation Software) V1.0* (貴州火星計算器軟件(簡稱: 計算器軟件)V1.0)	Guizhou Mars	PRC	2018SR414855	4 June 2018
31.	Sipukang Fingerprint Card Door Lock Management System V1.0* (思普康指紋卡門鎖管理系統V1.0)	Luzhou Sipukang	PRC	2018SR1060054	24 December 2018
32.	Luzhou Sipukang Test Platform Software (abbr.: Test Platform) V2.3* (瀘州思普康Test Platform軟件(簡稱: Test Platform)V2.3)	Luzhou Sipukang	PRC	2019SR0099150	28 January 2019
33.	Sprocomm Online Order Management System V1.0* (禾苗通信在線訂單管理系統V1.0)	Shanghai Sprocomm	PRC	2015SR047817	18 March 2015
34.	Sprocomm Online Examination System Application Software (abbr.: Online Examination System) V1.0* (禾苗通信在線考試系統應用軟件(簡稱: 在線考試系統)V1.0)	Shanghai Sprocomm	PRC	2015SR058485	1 April 2015
35.	Sprocomm Desktop Clock Customisation Software (abbr.: Sprocomm Desktop Clock) V1.0* (禾苗通信桌面時鐘定制軟件(簡稱: 禾苗桌面時鐘)V1.0)	Shanghai Sprocomm	PRC	2016SR148402	20 June 2016
36.	Sprocomm Gallery Small Window Play Customisation Software (abbr.: Gallery Small Window Play) V1.0* (禾苗通信相冊 (Gallery) 小窗口播放定制軟件(簡稱: 相冊小窗口播放)V1.0)	Shanghai Sprocomm	PRC	2016SR148466	20 June 2016



No.	Software Copyright	Registered owner	Place of registration	Registration No.	Registration date
37.	Sprocomm Smart Phone Front Camera Smart Fill Light Camera Customisation Design Software (abbr.: Smart Fill Light Camera) V1.0* (禾苗通信智能手機前置相機智能補光Camera定制設計軟件(簡稱:智能補光Camera)V1.0)	Shanghai Sprocomm	PRC	2016SR147493	20 June 2016
38.	Sprocomm BatteryStats Software (abbr.: BatteryStats) V1.0* (禾苗通信 BatteryStats軟件(簡稱: BatteryStats) V1.0)	Shanghai Sprocomm	PRC	2017SR649265	27 November 2017
39.	Sprocomm Small Note Software (abbr.: Small Note Software) V1.0* (禾苗通信 Small Note軟件(簡稱: Small Note軟件) V1.0)	Shanghai Sprocomm	PRC	2017SR736026	27 December 2017
40.	Sprocomm News User Side App Software (abbr.: News User Side App) V1.0* (禾苗通信新聞用戶端app軟件(簡稱:新聞用戶端app)V1.0)	Shanghai Sprocomm	PRC	2017SR735017	27 December 2017
41.	Sprocomm Shared Bicycle Smart Lock Software (abbr.: Bicycle Smart Lock Software) V17.0* (禾苗通信共用單車智能鎖軟件(簡稱:單車智能鎖軟件)V17.0)	Shanghai Sprocomm	PRC	2018SR154577	8 March 2018
42.	Smart Home Face Recognition and Authentication System V1.0* (智能家居人臉識別認證系統V1.0)	Shanghai Sprocomm	PRC	2018SR1031640	18 December 2018
43.	Smart Audio and Video Equipment Environmental Adaptive Regulation System V1.0* (智能影音設備環境適應性調節系統V1.0)	Shanghai Sprocomm	PRC	2018SR1029826	18 December 2018
44.	Smart Audio and Video Equipment Wireless WIFI Connection System V1.0* (智能影音設備無線WIFI連接系統 V1.0)	Shanghai Sprocomm	PRC	2018SR1031622	18 December 2018
45.	Sprocomm VGS-SCG Solution Software V1.0* (禾苗VGS-SCG解決方案軟件 V1.0)	Shanghai Sprocomm	PRC	2018SR1061633	24 December 2018
46.	Sprocomm Multi-scene Video Online Production System V1.0* (禾苗多場景視頻在線製作系統)V1.0	Shanghai Sprocomm	PRC	2018SR1056274	24 December 2018
47.	Sprocomm Embedded Fingerprint Recognition System* (禾苗嵌入式指紋識別系統)	Shanghai Sprocomm	PRC	2018SR1060721	24 December 2018

*(d) Domain names*

As at the Latest Practicable Date, our Group was the registered proprietor of the following material registered domain names:

<b>Registrant</b>	<b>Domain name</b>	<b>Expiry date</b>
Shenzhen Sprocomm	sprocomm.com	12 August 2020
Shenzhen Sprocomm	orleantech.com	14 June 2020

The contents of the website(s) do not form part of this prospectus.

Except as aforesaid, there are no other trade or service marks, patents, software copyrights, other intellectual or industrial property rights which are or may be material in relation to the business of our Group.

**3. Connected transactions and related party transactions**

Save as disclosed in note 39 to the accountants' report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS**

**1. Directors**

*(a) Disclosure of interests of our Directors*

Each of Mr. Li and Mr. Xiong is interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in the paragraph 1 of this Appendix.

Save as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors' service contracts*

*Executive Directors*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing on the Listing Date, until terminated by either party giving not less than three months' notice in writing to the other. Each of our executive Directors is entitled to their respective basic remuneration set out below.

The current basic annual remuneration payable by our Group to each of our executive Directors is as follows:

Name	Approximate annual remuneration (RMB)
Mr. Li	541,200
Mr. Xiong	275,880
Mr. Li Hongxing	329,250
Mr. Guo Qinglin	481,870

*Independent non-executive Directors*

Each of independent non-executive Directors has entered into an appointment letter with our Company for a term of three years commencing on Listing Date, until terminated by either party giving not less than three months' notice in writing to the other. Each of the independent non-executive Directors is entitled to a director's fee of HK\$120,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their respective offices. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) Directors remuneration**

The aggregate emoluments paid and benefits in kind granted by our Group to our Directors for FY2016, FY2017, FY2018 and 4M2019 were RMB0.8 million, RMB0.9 million, RMB1.2 million and RMB0.3 million, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2019 are expected to be approximately RMB1.8 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for FY2016, FY2017, FY2018 and 4M2019 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to any emoluments for FY2016, FY2017, FY2018 and 4M2019.

*(d) Interests and short positions of Directors and chief executive in the shares, underlying shares or debentures of our Company and its associated corporations*

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme, the interests and short positions of our Directors and chief executive in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

*Our Company*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held<sup>(1)</sup></b>	<b>Approximate percentage of shareholding in our Company</b>
Mr. Li <sup>(2)</sup>	Founder of a discretionary trust	369,967,204 Shares (L)	37.0%
Mr. Xiong <sup>(3)</sup>	Founder of a discretionary trust	305,032,256 Shares (L)	30.5%

*Notes:*

- (1) The letter “L” denotes the Directors’ long position in the Shares.
- (2) Our Company will be held as to approximately 37.0% by Leap Elite immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme). Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li’s Family Trust found by himself. Accordingly, Mr. Li is deemed to be interested in the Shares held by Leap Elite pursuant to the SFO.
- (3) Our Company will be held as to approximately 30.5% by Beyond Innovation immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme). Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong’s Family Trust found by himself. Accordingly, Mr. Xiong is deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO.

## 2. Substantial shareholders

So far as is known to our Directors, immediately following completion of the Capitalisation Issue and the Global Offering (without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme), the following persons (other than our Directors and chief executive) will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the issued voting shares of any other members of our Group:

### *Our Company*

Shareholders	Capacity/Nature of interest	Number of Shares held <sup>(1)</sup>	Percentage of shareholding in our Company
Leap Elite <sup>(2)</sup>	Beneficial interest	369,967,204 Shares (L)	37.0%
Beyond Innovation <sup>(3)</sup>	Beneficial interest	305,032,256 Shares (L)	30.5%
Ms. Sui <sup>(2)</sup>	Interest of spouse	369,967,204 Shares (L)	37.0%
Ms. Yan <sup>(3)</sup>	Interest of spouse	305,032,256 Shares (L)	30.5%
JZ Capital <sup>(4)</sup>	Beneficial interest	75,000,540 Shares (L)	7.5%
Mr. Ko Hin Ting, James <sup>(4)</sup>	Interest in a controlled corporation	75,000,540 Shares (L)	7.5%

### *Notes:*

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in our Shares.
- (2) Leap Elite is legally owned as to 100% by Mr. Li for the benefit of the beneficiaries of the Li’s Family Trust found by himself. As such, Mr. Li is deemed to be interested in the Shares held by Leap Elite pursuant to the SFO. Ms. Sui is the spouse of Mr. Li. By virtue of the SFO, Ms. Sui is deemed to be interested in the Shares held by Mr. Li.
- (3) Beyond Innovation is legally owned as to 100% by Mr. Xiong for the benefit of the beneficiaries of the Xiong’s Family Trust found by himself. As such, Mr. Xiong is deemed to be interested in the Shares held by Beyond Innovation pursuant to the SFO. Ms. Yan is the spouse of Mr. Xiong. By virtue of the SFO, Ms. Yan is deemed to be interested in the Shares held by Mr. Xiong.
- (4) JZ Capital is owned as to 99% by Mr. Ko Hin Ting, James. As such, Mr. Ko Hin Ting, James is deemed to be interest in the Shares held by JZ Capital pursuant to the SFO.

In addition to the above and so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue, the following person is directly interested in 10% or more of the issued voting shares of our subsidiaries:

<b>Name of subsidiary</b>	<b>Substantial shareholder of such subsidiary</b>	<b>Percentage of shareholding in such subsidiary</b>
Chengdu Sprocomm	Mr. Zou Tongliang	33.33%

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options which have been or may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% of the issued voting shares of any other member of our Group.

### 3. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) our Directors are not aware of any other person (not being a Director or the chief executive of our Company) who will, immediately following the completion of the Capitalisation Issue and the Global Offering, have interests and/or short positions in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the issued voting shares of any members of our Group;
- (b) none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company, our subsidiary or any of the associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

- (c) none of our Directors nor any of the parties listed in “9. Consents of experts” in this appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or were proposed to be acquired or disposed of by or leased to our Company or any member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in “9. Consents of experts” in this appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of our Group taken as a whole;
- (e) save in connection with the Underwriting Agreements, none of the experts referred to in “9. Consents of experts” in this appendix;
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their respective close associates nor, to the knowledge of our Directors, any Shareholders who held more than 5% of the total Shares as at the Latest Practicable Date had any interest in the five largest customers or the five largest suppliers of our Company.

## OTHER INFORMATION

### 1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 18 October 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

#### *(a) Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and

- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

***(b) Who may join***

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of our Group;
  - (bb) quality of work performed for our Group;
  - (cc) initiative and commitment in performing his/her duties; and
  - (dd) length of service or contribution to our Group.

***(c) Acceptance of an offer of options***

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 our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer for grant of an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.



Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the independent financial adviser as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee share certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.

*(d) Maximum number of shares*

The maximum number of Shares which may be issued upon exercise of all option to be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date (but taking account of any Shares which may be issued under the exercise of the Over-allotment Option), being 100,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

*(e) Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of our Company but subsequently cancelled (the “**Cancelled Shares**”) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her close associates (as defined in the Listing Rules) (or his/her associates if the participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
  - (aa) the Eligible Participant’s name, address and occupation;

- (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
- (cc) the date upon which an offer for an option must be accepted;
- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the notice given by the grantee in respect of the exercise of the option; and
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

***(f) Price of shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

*(g) Granting options to connected persons*

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of our independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before our Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

*(h) Restrictions on the times of grant of options*

A grant of options may not be made after inside information has come to our Company's knowledge until such information has been announced pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year, or quarterly or any other interim period (whether or not required under the Listing Rules);

and ending on the date of actual publication of the results announcement.

*(i) Rights are personal to grantee*

An option is personal to the grantee. No grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing by a grantee shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

*(j) Time of exercise of option and duration of the share option scheme*

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. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of our Company (the "**Adoption Date**"). Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

*(k) Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

***(l) Rights on ceasing employment/death***

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his/her relationship with our Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) in whole or in part within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as our Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or, as appropriate, his personal representative(s) may exercise the option in full (to the extent not already exercised) within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death.

***(m) Rights on dismissal***

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his/her debts or has become insolvent or has made any arrangements or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty, or has been in breach of contract, his/her option will lapse and not be exercisable after the date of termination of his/her employment.

***(n) Rights on takeover***

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

*(o) Rights on winding-up*

In the event that a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his/her options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

*(p) Rights on compromise or arrangement between our company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a compromise or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

***(q) Ranking of shares***

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as at attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

***(r) Effect of alterations to capital***

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to the Board to be in their/his/her opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him/her before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

***(s) Expiry of option***

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l) and (n); or
- (iii) the date upon which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;



- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his/her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

***(t) Alteration of the share option scheme***

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms and any adjustment to be made to the exercise price of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules, the supplemental guidance of 5 September 2005 and any future guidance or interpretation of the Listing Rules from time to time and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

***(u) Cancellation of options***

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

*(v) Termination of the share option scheme*

Our Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(w) Administration of the board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

*(x) Conditions of the share option scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee granting approval to the listing of and permission to deal in, on the Main Board of the Stock Exchange, our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Joint Global Coordinators (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 100,000,000 Shares in total.

**2. Estate duty, tax and other indemnities**

On 18 October 2019, our Controlling Shareholders (the “**Indemnifiers**”) entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our subsidiaries), to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing;
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (c) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of our Group under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations on or before the date on which the Global Offering becomes unconditional;
- (d) all claims, actions, losses, damages, costs or expenses suffered or incurred by any of the members of our Group in connection with the social insurance and housing provident fund contributions required to be made by the relevant laws and regulations in the PRC, which any member of our Group has failed to make in accordance with such laws and regulations from their respective date of establishment to the Listing Date;

- (e) all potential liability, losses and damages resulting from any suspension of operation and/or relocation costs and expenses sustained or incurred as a result of or in connection with the title defects as described in “Business — Properties — Leased Properties in the PRC — Defective title of leased properties” in this prospectus; and
- (f) all claims, payments, suits, damages, settlements, sums, outgoings, fees, losses and any associated costs and expenses which would be incurred or suffered directly or indirectly, from or on the basis of or in connection with the use of unlicensed computer software products in the course of our operations in the PRC during the Track Record Period, the legal proceedings and non-compliance matters by any member of our Group as described in “Business — Intellectual Property Rights”, “Business — Litigation” and “Business — Legal Compliance” in this prospectus or in connection with any other non-compliance of any member of our Group which has occurred at any time on or before the Listing Date.

Each Indemnifier is under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2018;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2019 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; and
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or

- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2018 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifier' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifier' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, each Indemnifier has also undertaken to us that it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

### **3. Litigation**

As at the Latest Practicable Date, save as disclosed in “Business — Legal compliance” in this prospectus, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

### **4. Preliminary expenses**

Our preliminary expenses are approximately HK\$34,535. All preliminary expenses and all expenses relating to the Global Offering will be borne by our Company.

### **5. Promoters**

We have no promoter for the purpose of the Listing Rules.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

### **6. Agency fees or commissions paid or payable**

Save as disclosed in “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

**7. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which have been or may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS. The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor will also receive a fee of HK\$6 million to act as the sole sponsor to our Company in connection with the Global Offering.

**8. Qualification of experts**

The qualifications of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualifications</b>
Dakin Capital Limited	A licensed corporation engaging in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
SHINEWING (HK) CPA Limited	Certified public accountants
Harney Westwood & Riegels	Cayman Islands legal advisers to the Company
China Insights Industry Consultancy Limited	Independent industry consultant
Allbright Law Offices (Shenzhen)	PRC legal advisers to our Company
Saikrishna & Associates	Indian legal advisers to our Company
Mr. Cheung, Harrison C.H.	Barrister-at-law in Hong Kong
Hogan Lovells	International Sanctions legal advisers to the Company
SHINEWING Tax and Business Advisory Limited	Tax advisers
SHINEWING Risk Services Limited	Internal control consultant

The statements of the expert as mentioned in this paragraph above were dated the date of this prospectus and were made by the experts for incorporation in this prospectus.

**9. Consents of experts**

Each of the experts as referred to in “8. Qualification of experts” in this section has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they are respectively included.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in any member of our Company or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of our Company.

**10. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**11. No material adverse change**

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 30 April 2019 up to the date of this prospectus.

**12. Taxation of holders of shares*****(a) Hong Kong***

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

***(b) The Cayman Islands***

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

*(c) Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**13. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**14. Miscellaneous**

- (a) Save as disclosed herein:
- (i) within two years preceding the date of this prospectus:
    - (aa) no shares or share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or any share or loan capital of our Company or any of our subsidiaries; and
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries; and
  - (ii) no shares or share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April 2019 (being the date to which the latest consolidated financial statements of our Group were made up) up to the date of this prospectus.



- (c) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (d) There is no arrangement under which future dividends are waived or agreed to be waived.
- (e) Our Company has no outstanding convertible debt securities or debentures.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

**15. Others**

The English text of this prospectus shall prevail over the Chinese text.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) copies of each of the material contracts referred to in the paragraph headed “Further information about the business of our Company — 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the paragraph headed “Other information — 9. Consents of experts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Messrs. Chung's Lawyers at 28/F, Henley Building, 5 Queen's Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association of our Company;
- (b) the accountants' report prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Company for the Track Record Period;
- (e) the PRC legal opinions issued by our PRC Legal Advisers in respect of general matters of our Group;
- (f) the legal opinions issued by Mr. Cheung, Harrison C.H., in respect of Hong Kong laws and regulations applicable to our Group;
- (g) the legal opinions issued by Saikrishna & Associates in respect of the Indian laws and regulations applicable to our Group;
- (h) the legal memorandum issued by Hogan Lovells in respect of relevant International Sanctions applicable to our Group;
- (i) the CIC Report;

- (j) the transfer pricing study report issued by SHINEWING Tax and Business Advisory Limited;
- (k) the internal control review report issued by SHINEWING Risk Services Limited;
- (l) the Cayman Islands Companies Law;
- (m) the letter prepared by Harney Westwood & Riegels summarising certain aspects of the Cayman Islands Companies Law as referred to in Appendix III to this prospectus;
- (n) the material contracts referred to in the paragraph headed “Further information about the business of our company — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (o) the written consents referred to in the paragraph headed “Other information — 9. Consents of experts” in Appendix IV to this prospectus;
- (p) the Share Option Scheme; and
- (q) the service contracts or letters of appointment (as the case may be) of our Directors.

**Sprocomm Intelligence Limited**