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**RISECOMM**  
**瑞斯康**

**RISECOMM GROUP HOLDINGS LIMITED**

**瑞斯康集團控股有限公司**

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

**(Stock code: 1679)**

**CHANGE IN USE OF PROCEEDS**

Reference is made to the prospectus of the Company dated 29 May 2017 (the “**Prospectus**”) in relation to the Global Offering and the annual report of the Group for the year ended December 31, 2018 (the “**2018 Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus.

**USE OF PROCEEDS**

The aggregated net proceeds from the Global Offering in connection with the Listing and exercise of the over-allotment option by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (the “**Net Proceeds**”) amounted to approximately HK\$158.2 million. Proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

	<i>HK\$'million</i> <i>(approximately)</i>
(a) Research and development of the Power Line Communication (“ <b>PLC</b> ”) technology	95.7
(b) Sales and marketing	32.0
(c) Repayment of an entrusted bank loan	14.7
(d) Working capital and general corporate purposes	<u>15.8</u>
Total	<u><u>158.2</u></u>

**CHANGE IN USE OF PROCEEDS**

As at the date of this announcement, the Company has utilised approximately HK\$73.7 million of the Net Proceeds. The amount of Net Proceeds which remains unutilised (the “**Unutilised Net Proceeds**”) up to the date of this announcement amounted to approximately HK\$84.5 million.

The Board resolved to change the use of the Unutilised Net Proceeds. An analysis of the utilisation of the Net Proceeds up to the date of this announcement and the proposed change of use of the Unutilised Net Proceeds (the “**Proposed Change**”) are summarised as follows:

	Original planned use of Net Proceeds <i>HK\$'million</i> <i>(approximately)</i>	Utilised Net Proceeds up to the date of this announcement <i>HK\$'million</i> <i>(approximately)</i>	Unutilised Net Proceeds up to the date of this announcement <i>HK\$'million</i> <i>(approximately)</i>	Proposed application of the Unutilised Net Proceeds <i>HK\$'million</i> <i>(approximately)</i>
<b>(a) Research and development of the PLC technology</b>				
— development of intellectual properties	48.3	25.0	23.3	16.3
— possible mergers and acquisitions of technology and/or research companies	23.7	—	23.7	—
— recruitment of research and development staff	23.7	9.6	14.1	7.0
	<u>95.7</u>	<u>34.6</u>	<u>61.1</u>	<u>23.3</u>
<b>(b) Sales and marketing</b>				
— cultivating relationships with possible sales channels	16.2	3.5	12.7	12.7
— undertaking an increasing number of pilot projects for smart energy management business	7.9	1.0	6.9	—
— recruitment of sales and marketing staff	7.9	4.1	3.8	3.8
	<u>32.0</u>	<u>8.6</u>	<u>23.4</u>	<u>16.5</u>
<b>(c) Repayment of an entrusted bank loan</b>	14.7	14.7	—	—
<b>(d) Working capital and general corporate purposes</b>	15.8	15.8	—	—
<b>(e) Repayment of interest expenses</b>				
— promissory notes issued to Sailen International IOT Limited (formerly known as Tiger Resort Leisure and Entertainment, Inc.) in relation to acquisition of Green Harmony Limited	—	—	—	35.7
— convertible bonds issued on August 13, 2018	—	—	—	9.0
	<u>—</u>	<u>—</u>	<u>—</u>	<u>44.7</u>
	<u>158.2</u>	<u>73.7</u>	<u>84.5</u>	<u>84.5</u>

## **REASONS FOR THE PROPOSED CHANGE**

The major reasons for the Proposed Change are as follows:

### **Reduction in research and development costs of the PLC technology and sales and marketing**

As disclosed in the Prospectus, the Group's planned major research and development projects are broadband PLC products for autometer reading ("AMR") business and other PLC application solution for smart energy management business ("SEM"). As disclosed in the 2018 Annual Report, the Group's broadband PLC products were under the approval process run by the respective department of State Grid Corporation of China ("State Grid") for approving the design and development of broadband system-on-chip IC and related AMR products. The Board revisited the budget of the broadband PLC project and considered that the future costs required for improvement, enhancement and bug-fix on the Group's broadband PLC products are less than originally planned. In addition, the Board had not identified any specific merger or acquisition to enhance the Group's core PLC technology up to the date of this announcement. As a result, the actual use of the Net Proceeds for the research and development of the PLC technology is expected to be far less than originally planned.

On the other hand, due to keen competition in the SEM in China in recent years, the growth of the Group's revenue from SEM segment was not in proportion to the expenses the Group put into SEM segment. As such, the Board revisited the short-term corporate strategy of the Group and considered to reduce the pilot projects of other potential customers of SEM business while focusing on the improvement and enhancement of PLC application for the core customers under SEM segment. As a result, the actual use of the Net Proceeds for sales and marketing expenditure is expected to be less than originally planned.

Given the strategic change of the Group's AMR and SEM business, the Board reallocated the internal resources by (i) streamlining the PLC research and development team for non-core PLC technology; and, (ii) redirecting the Group's market focus on SEM business. As a result, the Board revised the application of the Unutilised Net Proceeds for research and development on PLC technology and sales and marketing expenses to approximately HK\$23.3 million and HK\$16.5 million, respectively.

### **Repayment of interest expenses**

The Board was of the view to achieve a more balanced revenue composition to mitigate the inherent risk of reliance on the Group's AMR and other business by expanding into the smart manufacturing & industrial automation ("SMIA") business segment through acquisition of Green Harmony Limited during the year ended December 31, 2018.

As of the date of this announcement, the Group had outstanding consideration payables to the vendor of Green Harmony Limited (the “**Vendor**”) in form of two promissory notes with aggregated outstanding principal of approximately HK\$223.0 million with 8% interest rate per annum. The promissory notes will mature on August 14, 2020 and December 30, 2020, respectively. Interest expenses of approximately HK\$8.0 million, HK\$9.8 million, HK\$8.0 million and HK\$9.9 million will be payable on August 14, 2019, December 30, 2019, August 14, 2020 and December 30, 2020, respectively.

The Board had been actively seeking alternative debt or/and equity financing proposals since the inception of the acquisition of Green Harmony in December 2017. Due to the trade war between China and the United States since 2018, investors were more cautious on participating in the fundraising activities in the capital market in Hong Kong. As a result, the Group was only able to raise net proceeds of approximately HK\$146.0 million from issue of convertible bonds with aggregate principal amount of HK\$150.0 million at coupon interest rate of 4% per annum on August 13, 2018, maturing on August 12, 2020. Interest expenses of approximately HK\$3.0 million each will be payable on August 12, 2019, February 12, 2020 and August 12, 2020, respectively.

The Group will try its best endeavor to seek additional debt or/and equity financing proposals to settle the abovementioned promissory notes and convertible bonds to reduce the gearing ratio of the Group. Meanwhile, the Board considered the Proposed Change of allocation of HK\$44.7 million for repayment of interest expenses will give the Board a greater flexibility on internal resources allocation and use of cash.

Having considered the above, the Board are of the view that the Unutilised Net Proceeds originally allocated to the enhancement of research and development of PLC technology and sales and marketing expenditure shall now be better utilised to meet the current needs on financial activities of the Group. The re-allocation of the Unutilised Net Proceeds could provide a better cash resources allocation and strategic planning of the Group on working capital allocation and future investment opportunities. The Directors (including the non-executive Directors and independent non-executive Directors) is of the view that the Proposed Change is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

By order of the Board  
**Risecomm Group Holdings Limited**  
**Cheung Fan**  
*Chairman and Non-executive Director*

Hong Kong, July 3, 2019

*As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Zhang Youyun and Mr. Lau Wai Leung, Alfred, the non-executive Directors are Mr. Wang Shiguang, Mr. Cheung Fan and Mr. Yang Luokui and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.*