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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB218.6 million (unaudited) (2018: approximately RMB475.8 million), representing a decrease of approximately 54.1%.
- Revenue from Automated Meter Reading and other business segment decreased by approximately 59.8% to approximately RMB139.8 million (unaudited) as compared with the corresponding period in 2018.
- Revenue from Smart Manufacturing & Industrial Automation business segment decreased by approximately 38.7% to approximately RMB78.7 million (unaudited) as compared with the corresponding period in 2018.
- Impairment of goodwill arising from the Group's acquisition of NM Technology and Green Harmony amounting to approximately RMB171.2 million (unaudited) (2018: Nil) in total.
- Net loss for the year attributable to equity shareholders of the Company amounted to approximately RMB236.8 million (unaudited) (2018: net profit attributable to equity shareholders of the Company approximately RMB4.2 million).
- Basic loss per share for the year amounted to approximately RMB27.56 cents (unaudited) (2018: basic earnings per share approximately RMB0.51 cents).
- The Board did not recommend the payment of a final dividend for the year ended December 31, 2019.

UNAUDITED CONSOLIDATED ANNUAL RESULTS

For the reasons explained below under "Audit Committee and Review of Unaudited Annual Results", the auditing process for the annual results of Risecomm Group Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") has not been completed. In the meantime, the board (the "**Board**") of directors (the "**Directors**") of the Company announces herewith the unaudited consolidated annual results of the Group for the year ended December 31, 2019 (the "**year under review**"), together with the comparative figures, which were extracted from audited financial statements, for the corresponding period in 2018 or other dates/periods as set out in this announcement.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2019 (Expressed in Renminbi)

	Note	2019 RMB'000 (Unaudited)	2018 (Note) RMB'000
Revenue	2	**218,575**	475,793
Cost of sales		**(153,800)**	(316,259)
Gross profit		**64,775**	159,534
Other income	3	**11,364**	11,215
Sales and marketing expenses		**(31,147)**	(52,790)
General and administrative expenses		**(95,145)**	(84,163)
Research and development expenses		**(31,639)**	(36,954)
Loss from operations		**(81,792)**	(3,158)
Impairment of goodwill	8	**(171,173)**	–
Finance costs	4(a)	**(3,245)**	(3,539)
Share of loss of associate		**(50)**	(110)
Fair value gains on financial instruments at fair value	4(c)	**5,635**	10,424
(Loss)/profit before taxation	4	**(250,625)**	3,617
Income tax credit	5	**13,812**	578
(Loss)/profit for the year		**(236,813)**	4,195
Attributable to:			
— Equity shareholders of the Company		**(236,813)**	4,204
— Non-controlling interests		**–**	(9)
(Loss)/profit for the year		**(236,813)**	4,195
(Loss)/earnings per share	6		
Basic *(RMB cents)*		**(27.56)**	0.51
Diluted *(RMB cents)*		**(27.56)**	(1.72)

Note: The Group has initially applied HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019
(Expressed in Renminbi)

	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(Unaudited)	
(Loss)/profit for the year	**(236,813)**	4,195
Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China	**(3,680)**	4,877
Total comprehensive (loss)/income for the year	**(240,493)**	9,072
Attributable to:		
— Equity shareholders of the Company	**(240,493)**	9,081
— Non-controlling interests	**–**	(9)
Total comprehensive (loss)/income for the year	**(240,493)**	9,072

Note: The Group has initially applied HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019
(Expressed in Renminbi)

	Note	**2019**	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	
Non-current assets			
Property, plant and equipment		**28,539**	30,877
Intangible assets	*7*	**180,452**	215,363
Right of use assets		**18,003**	–
Goodwill	*8*	**43,974**	215,147
Interest in associate		**396**	446
Deferred tax assets		**20,692**	19,813
		292,056	481,646
Current assets			
Inventories	*9*	**25,697**	33,225
Contract costs		**29,120**	7,548
Trade and other receivables	*10*	**126,216**	259,253
Restricted bank deposits		**326**	148
Financial investments at fair value through profit or loss		**–**	10,000
Cash and cash equivalents		**145,110**	267,037
		326,469	577,211
Current liabilities			
Trade and other payables	*11*	**78,312**	124,006
Contract liabilities		**9,656**	23,700
Lease liabilities		**7,797**	–
Acquisition consideration payables	*12*	**–**	211,280
Income tax payable		**6,042**	12,551
		101,807	371,537
Net current assets		**224,662**	205,674
Total assets less current liabilities		**516,718**	687,320

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
At December 31, 2019
(Expressed in Renminbi)

	Note	2019 RMB'000 (Unaudited)	2018 (Note) RMB'000
Non-current liabilities			
Acquisition consideration payables	12	**118,814**	105,255
Lease liabilities		**10,360**	–
Convertible bonds		**116,196**	120,502
Deferred tax liabilities		**41,369**	54,043
Deferred income		**4,834**	6,734
		291,573	286,534
Net assets		**225,145**	400,786
Capital and reserves			
Share capital		**86**	71
Reserves		**225,059**	400,715
Total equity		**225,145**	400,786

Note: The Group has initially applied HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

NOTES TO THE UNAUDITED RESULTS ANNOUNCEMENT

(Expressed in Renminbi unless otherwise indicated)

The financial information contained in this announcement of unaudited annual results is extracted from the Group's unaudited consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The Company was incorporated in the Cayman Islands on August 19, 2015 as an exempted company with limited liabilities under Companies Law, (Cap 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements for the year ended December 31, 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in associate.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "**Functional Currency**"). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis except for financial investments at fair value through profit or loss ("**FVTPL**").

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases — incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalized leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. January 1, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before December 31, 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at December 31, 2018 to the opening balance for lease liabilities recognized as at January 1, 2019:

	January 1, 2019 *RMB'000* (Unaudited)
Operating lease commitments at December 31, 2018	6,999
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before December 31, 2019	(877)
— leases of low-value assets	–
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	7,291
	13,413
Less: total future interest expenses	(807)
Present value of remaining lease payments, discounted using the incremental borrowing rate at January 1, 2019	12,606
Total lease liabilities recognized at January 1, 2019	12,606

The right-of-use assets in relation to leases previously classified as operating leases have been recognized at an amount equal to the amount recognized for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position at December 31, 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at December 31, 2018 *RMB'000*	**Capitalisation of operating lease contracts** *RMB'000*	**Carrying amount at January 1, 2019** *RMB'000* (Unaudited)
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	12,606	12,606
Total non-current assets	**481,646**	**12,606**	**494,252**
Lease liabilities (current)	–	5,207	5,207
Current liabilities	**371,537**	**5,207**	**376,744**
Net current assets	**205,674**	**(5,207)**	**200,467**
Total assets less current liabilities	**687,320**	**7,399**	**694,719**
Lease liabilities (non-current)	**–**	**7,399**	**7,399**
Total non-current liabilities	**286,534**	**7,399**	**293,933**
Net assets	**400,786**	**–**	**400,786**

2 REVENUE

The Group is principally engaged in the design, development and sale of power-line communication ("**PLC**") products as well as the provision of relevant maintenance services in connection with the deployment and upgrades of Auto Meter Reading ("**AMR**") systems by power grid companies in the People's Republic of China ("**PRC**") and for a wide range of applications related to energy saving and environmental protection.

Upon the acquisition of Green Harmony Limited ("**Green Harmony**") in August 2018, the Group is also engaged in the sale of software license, production safety products as well as the provision of software post-contract customer support services in connection with the smart manufacturing & industrial automation system ("**SMIA**") applied in the area of maintenance and safety integrity system in the petroleum and petrochemicals industry.

(i) Disaggregation of revenue

The amount of each significant category of revenue is as follows:

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15 and recognized at a point in time		
Disaggregated by major products of service lines		
AMR and other business		
— PLC Integrated circuits ("**ICs**")	**32,224**	52,797
— PLC Modules	**27,164**	137,716
— Collectors	**1,818**	82,635
— Other products	**56,026**	40,955
— AMR maintenance services	**22,594**	33,307
Sub-total of AMR and other business	**139,826**	347,410
SMIA business		
— Software license	**41,205**	89,282
— Production safety products	**26,537**	36,658
Sub-total of SMIA business	**67,742**	125,940
Revenue from contracts with customers within the scope of HKFRS 15 and recognized over time		
Disaggregated by major products of service lines		
SMIA business		
— Post-contract customer support service	**11,007**	2,443
Sub-total of SMIA business	**11,007**	2,443
Total	**218,575**	475,793

The Group had transactions with one individual customer the aggregate amount of which exceeded 10% of the Group's revenue in 2019 (2018: one). Revenues from this customer in 2019 amounted to approximately RMB27,909,000 (2018: RMB91,059,000).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

As at December 31, 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB78,624,000 (2018: RMB113,416,000). This amount represents revenue expected to be recognized in the future from sales contract of software license and post-contract customer support service entered into by the customers with the Group. The Group will recognize the expected revenue in future when the software is made available to the customers or, in the case of the post-contract customer support service, when the service is rendered monthly to the customers, which is expected to occur over the next 1 to 4 years.

The Group have applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts that had an original expected duration of one year or less such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under these contracts.

3 OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Interest income from bank deposits	**1,829**	756
Government grants		
— Unconditional subsidies *(note (a))*	**8,181**	10,515
— Conditional subsidies	**1,900**	2,466
Net exchange loss	**(663)**	(2,676)
Others	**117**	154
	11,364	11,215

(a) Government grants

Unconditional government grants mainly represent value-added tax ("**VAT**") refund on self-developed software embedded in AMR and smart energy management products in accordance with the relevant tax law in the PRC.

4 LOSS/(PROFIT) BEFORE TAXATION

Loss/(profit) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(Unaudited)	
Interest expense on promissory notes	**2,457**	250
Issuance cost of convertible bonds	**–**	3,289
Interest on lease liabilities	**726**	–
Others	**62**	–
	3,245	3,539

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

(b) Staff costs

	2019 *RMB'000* (Unaudited)	2018 *RMB'000*
Salaries, wages and other benefits	**42,956**	55,515
Contributions to defined contribution retirement plans	**3,199**	4,353
Equity-settled share-based payment expenses	**3,379**	2,022
	49,534	61,890

(c) Fair value gains on financial instruments at fair value

	2019 *RMB'000* (Unaudited)	2018 *RMB'000*
Change in fair value of contingent share consideration	**(14,628)**	(8,241)
Change in fair value of contingent consideration notes payable	**7,985**	8,495
Change in fair value of convertible bonds	**1,008**	(10,678)
	(5,635)	(10,424)

(d) Other items

	2019 *RMB'000* (Unaudited)	2018 *RMB'000*
Cost of inventories	**116,128**	258,889
Cost of software license sold	**29,686**	56,292
Cost of post-contract customer support service	**9,161**	1,737
Research and development expenses	**31,639**	36,954
Depreciation and amortization of		
— intangible assets and property, plant and equipment	**43,605**	27,796
— right-of-use assets*	**6,607**	–
Operating lease charges under HKAS 17*	**–**	9,627
Professional fees	**11,351**	7,084
Impairment losses of trade receivables	**20,449**	17,322
Auditors' remuneration	**3,468**	2,938

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee is required to recognize the depreciation of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

5 INCOME TAX CREDIT IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Current tax:		
Provision for current income tax for the year	**1,636**	14,891
(Over)/under-provision in prior years	**(605)**	175
Reversal of provision for permanent establishment risk	**(1,290)**	(1,400)
Deferred tax:		
Origination and reversal of temporary differences	**(13,553)**	(14,244)
	(13,812)	(578)

6 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB236,813,000 (2018: profit of RMB4,204,000) and the weighted average of 859,319,034 ordinary shares (2018: 823,461,933) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2019	2018
	(Unaudited)	
Shares in issue on January 1	**811,247,421**	810,877,303
Effect of vested equity-settled share options	**1,302,260**	12,216,440
Effect of equity-settled share options exercised	**10,998,151**	368,190
Effect of share issued as consideration for acquisition of NM Technology	**10,716,407**	–
Effect of the Placing on October 31, 2019	**25,054,795**	–
Weighted average number of ordinary shares	**859,319,034**	823,461,933

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB236,813,000 (2018: RMB14,715,000) and the weighted average of 859,319,034 shares for 2019 (2018: 857,716,637), calculated as follows:

(i) Loss attributable to ordinary equity shareholders of the Company (diluted)

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
(Loss)/profit attributable to ordinary equity shareholders (basic)	**(236,813)**	4,204
After tax effect of gain on fair value changes of convertible bonds *(note 4(c))*	**–**	(10,678)
After tax effect of gain on fair value changes of contingent share consideration *(note 4(c))*	**–**	(8,241)
Loss attributable to ordinary equity shareholders (diluted)	**(236,813)**	(14,715)

(ii) Weighted average number of ordinary shares (diluted)

	2019	2018
	(Unaudited)	
Weighted average number of ordinary shares at December 31 (basic)	**859,319,034**	823,461,933
Effect of conversion of convertible bonds	**–**	23,178,082
Effect of settlement of contingent share consideration	**–**	11,076,622
Weighted average number of ordinary shares at December 31 (diluted)	**859,319,034**	857,716,637

The computation of diluted loss per share for the year ended December 31, 2019 does not assume the conversion of the Company's convertible bonds since its exercise had anti-dilutive effect that would result in a decrease in loss per share for the year ended December 31, 2019.

The potential ordinary shares attributable to the Company's unvested equity-settled share options had anti-dilutive effect for the years ended December 31, 2019 and 2018 as the unvested equity-settled share options would result in a decrease in loss per share.

7 INTANGIBLE ASSETS

	Software	Capitalized development costs	Customer relationships	Non-compete undertakings	Unfulfilled contracts	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At January 1, 2018	10,753	7,287	–	–	–	18,040
Acquisitions of subsidiaries	3	–	99,380	100,147	22,264	221,794
Additions	151	2,036	–	–	–	2,187
At December 31, 2018 and January 1, 2019	10,907	9,323	99,380	100,147	22,264	242,021
Additions	953	1,706	–	–	–	2,659
At December 31, 2019 (Unaudited)	11,860	11,029	99,380	100,147	22,264	244,680
Accumulated amortization:						
At January 1, 2018	(4,045)	–	–	–	–	(4,045)
Charge for the year	(2,190)	–	(5,875)	(5,949)	(8,599)	(22,613)
At December 31, 2018 and January 1, 2019	(6,235)	–	(5,875)	(5,949)	(8,599)	(26,658)
Charge for the year	(1,667)	–	(12,652)	(14,726)	(8,525)	(37,570)
At December 31, 2019 (Unaudited)	(7,902)	–	(18,527)	(20,675)	(17,124)	(64,228)
Net book value:						
At December 31, 2019 (Unaudited)	3,958	11,029	80,853	79,472	5,140	180,452
At December 31, 2018	4,672	9,323	93,505	94,198	13,665	215,363

8 GOODWILL

	RMB'000
Cost:	
At January 1, 2018	–
Goodwill arising from business combinations:	
— NM Technology	37,936
— Green Harmony	177,211
At December 31, 2018, January 1, 2019 and December 31, 2019 (Unaudited)	215,147
Accumulated impairment losses:	
At January 1, 2018, December 31, 2018 and January 1, 2019	–
Impairment loss:	
— NM Technology	14,680
— Green Harmony	156,493
At December 31, 2019 (Unaudited)	171,173
Carrying amount:	
At December 31, 2019 (Unaudited)	43,974
At December 31, 2018	215,147

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to the business segment as follows:

	2019 *RMB'000* **(Unaudited)**	2018 *RMB'000*
AMR and other business	**23,256**	37,936
SMIA business	**20,718**	177,211
	43,974	215,147

Goodwill of AMR and other business

In 2019, the Group experienced an unexpected delay in debut of the Group's PLC based broadband AMR product. This has postponed the Group's participation in certain centralized biddings to be conducted by State Grid as well as certain local biddings in 2019 and 2020, and hence has led to a potential loss of market share which could hamper the financial performance of the Group's AMR and other business in the short run. The delay in debut of the Group's PLC based broadband AMR product and potential loss of market share could negatively impact the expected future cashflow and the recoverable amount of the CGU. As a result, impairment loss of RMB14,680,000 (unaudited) has been recorded during the year.

Goodwill of SMIA business

In 2019, there was a significant decrease in revenue and gross profit of the SMIA business segment as compared to that of 2018 which was primarily attributable to an unexpected delay in delivery/implementation of certain major contracts held as of December 31, 2019. Such delay was mainly attributable to the revision of corporate resources planning and implementation schedule conducted by the customers under SMIA business segment and hence has led to delay in revenue recognition by the Group. Given the financial performance of the SMIA business segment for the year ended December 31, 2019 had not achieved the 2019 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, assessed the project progress and reasonableness of the timing of revenue recognition of the backlog contracts of the SMIA business held as of December 31, 2019, reassessed the sale pipelines forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run etc. As a result, impairment loss of RMB156,493,000 (unaudited) has been recorded during the year.

As at December 31, 2019, management performed impairment tests for the goodwill and the recoverable amounts of the respective CGUs have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 3% (2018: 3%) which does not exceed the long-term average growth rate for the business in which the respective CGUs operate. The cash flows are discounted using pre-tax discount rate of 20.16% (2018: 21.40%) for AMR and other business and 23.96% (2018: 24.41%) for SMIA business respectively, which reflect specific risks relating to the relevant business. The Group has also engaged an independent external valuation firm to perform valuation of the CGUs in relation to AMR and other business and SMIA business.

The impairment loss recognized during the year relates to both AMR and other business and SMIA business. As the carrying amount of CGUs in relation to AMR and other business and SMIA business have been reduced to its recoverable amount of RMB243,751,000 (unaudited) and RMB208,428,000 (unaudited), respectively, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

9 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000*
Raw materials	**17,370**	16,925
Work in progress	**2,233**	3,418
Finished goods	**27,590**	26,897
	47,193	47,240
Provision for diminution in value of inventories	**(21,496)**	(14,015)
	25,697	33,225

10 TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Trade receivables, net of loss allowance	**96,366**	206,425
Bills receivable	**9,951**	15,342
Total trade receivables	**106,317**	221,767
Prepayments	**7,949**	27,735
Income tax recoverable	**242**	85
Other receivables	**11,708**	9,666
Trade and other receivables, net	**126,216**	259,253

(a) Ageing analysis

As at the end of each reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on invoice date and related loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Within 6 months	**43,609**	156,901
After 6 months but within 1 year	**14,292**	28,814
After 1 year	**94,632**	56,428
Trade receivables	**152,533**	242,143
Loss allowance	**(56,167)**	(35,718)
Trade receivables, net of loss allowance	**96,366**	206,425

11 TRADE AND OTHER PAYABLES

	December 31, 2019	December 31, 2018
	RMB'000	*RMB'000*
	(Unaudited)	
Trade payables	**66,594**	91,794
Product warranty provision	**1,701**	3,474
Other payables and accruals	**10,017**	28,738
Trade and other payables	**78,312**	124,006

All trade payables are expected to be settled within one year.

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Within 3 months	**32,771**	70,249
After 3 months but within 6 months	**3,059**	8,825
After 6 months but within 1 year	**5,819**	7,798
Over 1 year but within 2 years	**24,945**	4,922
	66,594	91,794

12 ACQUISITION CONSIDERATION PAYABLES

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Acquisition of NM Technology		
— Promissory note payable	**–**	8,875
— Contingent share consideration payable	**–**	23,325
Acquisition of Green Harmony		
— Promissory notes payable	**118,814**	–
— Contingent consideration notes payable	**–**	284,335
	118,814	316,535
Representing:		
— Amounts payable within 1 year	**–**	211,280
— Amounts payable after 1 year but within 2 years	**118,814**	105,255
	118,814	316,535

For the acquisition of Green Harmony, on November 25, 2019, the Company and the GH Vendor (as defined below) entered into a supplemental agreement, pursuant to which, (i) the face value of the First Promissory Note (as defined below) was reduced to HK$20 million as the Company has repaid the principal amount of HK$80 million of the First Promissory Note and the face value of the Second Promissory Note (as defined below) was reduced to approximately HK$123 million due to the adjustment of the consideration pursuant to the adjustment mechanism under GH SPA (as defined below); (ii) the maturity date of the First Promissory Note and the Second Promissory Note was further extended to August 14, 2021 and December 30, 2021, respectively; and (iii) the coupon rates of the First Promissory Note and Second Promissory Note were reduced from 8% to 4% per annum, respectively, from the date of such supplemental agreement (i.e. November 25, 2019).

13 DIVIDENDS

The Board did not recommend the payment of a final dividend for year ended December 31, 2019 (2018: Nil).

14 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As disclosed in the voluntary announcement of the Company dated February 18, 2020, due to the outbreak of the coronavirus (COVID-19) epidemic (the "Epidemic") in the PRC, full resumption of operation and production of the Group was delayed. As at the date of this announcement, the Group has resumed full operation and production, except for the subsidiaries and branches of the Group in Beijing which certain travel restrictions are still in force in Beijing to combat the outbreak of the Epidemic.

15 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

With the continuous improvement on the Strong Smart Grid (堅強智能電網) by State Grid Corporation of China ("**State Grid**"), State Grid formally adopted a new unified industry standard (the "**New Standard**") for broadband Power Line Communication ("**PLC**") in mid-2017 and then continuously revisited the technical specifications by extending two more frequency bands within the existing communication protocols in July 2018 to reach a further enhancement in the New Standard (the "**Enhanced New Standard**"). After a temporary slow-down in the procurement of smart meters conducted by State Grid during 2017 and 2018 due to the unified industry standard, a turnaround in demand was proved by the increase in the bidding volume of State Grid's centralized biddings on smart meters and other terminals to approximately 77.2 million units in 2019 (2018: 52.8 million units) according to an independent market research. The market expected that there is an ongoing mass procurement of the broadband PLC products by State Grid starting in 2020 and onwards. Under current Sino-American trade tension, more state-owned enterprises ("**SOE**") and sizeable technology-based companies tapped in the chipsets market as a result of the supportive direction conducted by the Chinese government for the promotion of national self-developed chipsets with an aim to protect the national interests and to compete internationally. Therefore, the competition landscape has been changing as it is foreseeable that a significant portion of the PLC market shares will be retained by SOE, in general. Hence, the competition among domestic PLC market participants are even more intense in the upcoming years although the overall market demand in PLC remains promising. In the Group's automated meter reading ("**AMR**") and other business segment, the increase in market competition will potentially reduce the market share of the Group's PLC product in the State Grid and adversely affect financial performance of the Group's AMR and other business segment.

On the other hand, during the year under review, the Group's Smart Manufacturing & Industrial Automation ("**SMIA**") business segment has been continuing in exploring the field of industrial automation systems by leveraging its core technology competency, particularly in the area of maintenance and safety integrity system ("**MSI**") for the petroleum and petrochemicals industry. According to a market report "2018 China Intelligent Manufacturing Development Annual Report" (2018 中國智慧製造發展年度報告) released by China Center for Information Industry Development (中國電子資訊產業發展研究院), the market size of China intelligent manufacturing system solutions reached RMB156 billion in 2018, while further expecting to exceed RMB238 billion by 2020. This is a tremendous market which allows the market players to explore in various aspects in the smart manufacturing area.

Business Review

During the year under review, the Group operated in two major business segments. Firstly, the Group operated in AMR and other business, where the Group sold PLC products such as PLC integrated circuits ("**ICs**"), modules and devices such as connectors and concentrators, which have been mainly used in the deployment and upgrade of AMR systems for smart meters by power grid companies in China as a key part of the smart grid infrastructure. The Group had been developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid. In addition, the Group also provided maintenance services on AMR systems on a project-by-project basis. Furthermore, the Group's PLC products also apply to several smart energy business in China, mainly in the area of streetlight controls, building energy management and photovoltaic power management.

Secondly, the Group expanded its business in late 2018 and engages in SMIA business where the Group offered software licenses, production safety products as well as provision of software post-contract customer support services applied in the area of MSI in the petroleum and petrochemicals industry.

During the year under review, the Group recorded revenue of approximately RMB218.6 million (unaudited) (2018: approximately RMB475.8 million), representing a decrease of 54.1%.

The Group's AMR and other business segment recorded a revenue of approximately RMB139.8 million (unaudited) (2018: approximately RMB347.4 million), representing a decrease of approximately 59.8%. Revenue from AMR and other business segment for the year under review accounted for approximately 64.0% (2018: 73.0%) of the Group's total revenue. A significant decrease in revenue from AMR and other business segment for the year under review was mainly due to (a) a decrease in demand for the Group's PLC based narrowband AMR products by State Grid and (b) an unexpected further delay in debut of the Group's broadband AMR products in 2019. Such unexpected further delay in debut of broadband AMR products led to a significant decrease in revenue generated from the Group's AMR products under the centralized biddings conducted by State Grid and customers under State Grid local biddings and trading sales for the year ended December 31, 2019 as compared to that of the corresponding period in 2018. Fortunately, the Group was informed by China Electric Power Research Institute (中國電力科學研究院) on March 2, 2020 that the Group's PLC broadband chipsets has passed all the functional tests set out by the Institute. Based on the currently available information, the Directors can reasonably expect that China Electric Power Research Institute will officially issue the certificate letter to endorse our PLC broadband chipsets and modules which meet the protocol standards of broadband system-on-chip ICs promulgated by the State Grid in the near future.

During the year under review, the Group's SMIA business segment recorded a revenue of approximately RMB78.7 million (unaudited) (2018: approximately RMB128.4 million), representing a decrease of approximately 38.7%. Revenue from SMIA business segment for the year under review accounted for approximately 36.0% (2018: 27.0%) of the Group's total revenue.

There is significant decrease in the Group's revenue and gross profit from SMIA business segment for the year ended December 31, 2019 as compared to that of the corresponding period in 2018 which is primarily attributable to an unexpected delay in delivery/implementation of certain major contracts held as of December 31, 2019. Such delay is mainly attributable to the revision of corporate resources planning and implementation schedule conducted by the customers under SMIA business segment and hence has led to delay in revenue recognition by the Group.

The Group recorded a loss attributable to equity shareholders of the Company for the year under review of approximately RMB236.8 million (unaudited) (2018: profit attributable to equity shareholders of the Company of approximately RMB4.2 million).

The loss attributable to the equity shareholders of the Company, apart from the direct effect of significant decrease in revenue from both the AMR and other business segment and SMIA segment, were then mainly attributable to (i) a significant increase in general and administrative expenses for the year under review as compared to that of the corresponding period in 2018 which was primarily attributable to (a) an increase in amortisation expenses for the year ended December 31, 2019, which are incurred largely on the intangible assets arising from the acquisition of Green Harmony by the Group in August 2018. The commencement date of the amortisation of related intangible assets was August 2018 and therefore a proportional difference in such amortisation expenses was resulted between the year ended December 31, 2019 and the corresponding period in 2018; and (b) an increase in impairment loss on trade receivables which were long aged and required more loss allowance according to the Group's provision matrix; and (ii) the recognition of impairment losses of goodwill during the year under review.

Research and Development

The Group has been committed to PLC IC design and its applications tailored to China's market environment since the inception in the industry in 2006 by establishing its core competency in designing advanced application-specific ICs, or application-specific integrated circuits ("**ASICs**"), and using these proprietary ASICs to develop the PLC products. As a high-tech company driven by research and development, the Group's research and development efforts are focused on enhancing the functionality of its products and addressing the technical needs of its customers, as well as expanding the Group's product portfolio for different PLC applications.

The Group had been actively participating in the discussion and formulation of the technical standard for broadband PLC for State Grids for several years whereas the Group heavily invested in the research and development project in relation to the Group's PLC based broadband AMR product to be applied in the State Grid.

As at December 31, 2019, the research and development team of the Group consisted of 67 employees (as at December 31, 2018: 101 employees), representing approximately 30% (as at December 31, 2018: approximately 28%) of the Group's total workforce, specializing in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As at December 31, 2019, the Group held a significant intellectual property portfolio, comprising 17 patents, 106 computer software copyrights and 8 IC layout designs registered, with 10 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development in PLC technology and MSI for the petroleum and petrochemicals industry.

Financial Review

Revenue

Revenue decreased from approximately RMB475.8 million for the corresponding period in 2018 to approximately RMB218.6 million (unaudited) for the year under review, or by approximately 54.1%. This decrease was mainly attributable to (i) a decrease in demand for the Group's PLC based narrowband AMR products by State Grid and an unexpected further delay in debut of the Group's broadband AMR products in 2019. Such unexpected further delay in debut of broadband AMR products led to a significant decrease in revenue generated from the Group's AMR products under the centralized biddings conducted by State Grid and customers under State Grid local biddings and trading sales for the year ended December 31, 2019 as compared to that of the corresponding period in 2018, and; (ii) an unexpected delay in delivery/implementation of certain major contracts held as of December 31, 2019 for the SMIA business segment. Such delay is mainly attributable to the revision of corporate resources planning and implementation schedule conducted by the customers under SMIA business segment and hence has led to delay in revenue recognition by the Group.

Gross profit

Gross profit decreased by approximately 59.4% to approximately RMB64.8 million (unaudited) for the year under review from approximately RMB159.5 million for the corresponding period in 2018.

Gross profit margin was approximately 29.6% (unaudited) for the year under review and decreased by approximately 3.9 percentage points as compared with approximately 33.5% for the corresponding period in 2018. The decrease in gross profit margin of the Group was mainly attributable to a decrease in revenue from sales of PLC products to customers under State Grid centralized biddings (which earned a relatively higher gross profit margin in general) for the year under review.

Other income

Other income increased by approximately 1.8% to approximately RMB11.4 million (unaudited) for the year under review from approximately RMB11.2 million for the corresponding period in 2018. The increase was mainly attributable to the increase in interest income from bank deposits and the decrease in net exchange loss for the year under review.

Sales and marketing expenses

Sales and marketing expenses decreased by approximately 41.1% to approximately RMB31.1 million (unaudited) for the year under review from approximately RMB52.8 million for the corresponding period in 2018. This decrease was mainly attributable to an implementation of tightened cost control measures by the Group on sales and marketing expenses whereas a significant decrease in customer service expenses, marketing expenses and travelling expenses were resulted for the year under review.

General and administrative expenses

General and administrative expenses increased by approximately 12.9% to approximately RMB95.1 million (unaudited) for the year under review from approximately RMB84.2 million for the corresponding period in 2018. This increase was mainly attributable to (i) an increase in amortisation expenses for the year ended December 31, 2019, which are incurred largely on the intangible assets arising from the acquisition of Green Harmony by the Group in August 2018. The commencement date of the amortisation of related intangible assets was August 2018 and therefore a proportional difference in such amortisation expenses was resulted between the year ended December 31, 2019 and the corresponding period in 2018; and (ii) an increase in impairment loss on trade receivables which were long aged and required more loss allowance according to the Group's provision matrix.

Research and development expenses

Research and development expenses decreased by approximately 14.6% to approximately RMB31.6 million (unaudited) for the year under review from approximately RMB37.0 million for the corresponding period in 2018. The decrease was mainly attributable to a decrease in staff costs incurred during the year under review since the headcount of Group's research and development team reduced to 67 employees as of December 31, 2019 (December 31, 2018: 101 employees). During the year under review, the Group's strategically retained the resources on the development of our core PLC technology and the expansion of software application in the SMIA business segment while reducing the resources on field application engineering in the AMR and other business segment.

Fair value gains on financial instruments at fair value

During the year under review, the Group recorded fair value gains on financial instruments at fair value of approximately RMB5.6 million (unaudited) (2018: approximately RMB10.4 million) which was attributable to changes in fair value of financial instruments including the Convertible Bonds (as defined below), the Consideration Shares (as defined below) and the Consideration Notes Payables (as defined below).

Income tax credit

Income tax credit increased by approximately 2,200.0% to approximately RMB13.8 million (unaudited) for the year under review from approximately RMB0.6 million for the corresponding period in 2018. The increase was mainly attributable to (i) reversing deferred tax liability regarding withholding tax due to loss making of PRC entities; and (ii) decrease of deferred tax liability due to amortization of intangible assets, which are identified in business acquisitions.

Impairment of Goodwill

Impairment test of goodwill

In accordance with the relevant requirements under "Hong Kong Accounting Standard 36 — Impairment of Assets", the Group performed impairment test with assistance of an external valuation firm for the goodwill arising from the acquisitions of NM Technology and Green Harmony. After conducting impairment tests, the Group recognized impairment of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of RMB14.7 million (unaudited) and RMB156.5 million (unaudited) respectively for the year ended December 31, 2019, after which, carrying amount of two CGUs have been reduced to recoverable amount calculated based on discounted cashflow forecast method.

AMR and other business segment

As mentioned above in the "Business review", in 2019, the Group experienced an unexpected delay in debut of the Group's PLC based broadband AMR product. This has postponed the Group's participation in certain centralized biddings to be conducted by State Grid as well as certain local biddings in 2019 and 2020, and hence has led to a potential loss of market share which could hamper the financial performance of the Group's AMR and other business in the short run. The delay in debut of the Group's PLC based broadband AMR product and potential loss of market share could negatively impact the expected future cashflow and the recoverable amount of the CGU.

SMIA business segment

In 2019, there was a significant decrease in revenue and gross profit of the SMIA business segment as compared to that of 2018 which was primarily attributable to an unexpected delay in delivery/implementation of certain major contracts held as of December 31, 2019. Such delay was mainly attributable to the revision of corporate resources planning and implementation schedule conducted by the customers under SMIA business segment and hence has led to delay in revenue recognition by the Group. Given the financial performance of the SMIA business segment for the year ended December 31, 2019 had not achieved the 2019 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, assessed the project progress and reasonableness of the timing of revenue recognition of the backlog contracts of the SMIA business held as of December 31, 2019, reassessed the sale pipelines forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run etc.

(Loss)/Profit Attributable to Equity Shareholders of the Company

As a result of the above factors, the Company recorded a loss attributable to equity shareholders of the Company for the year under review of approximately RMB236.8 million (unaudited) (2018: profit attributable to equity shareholders of the Company of approximately RMB4.2 million).

Liquidity and Financial Resources

During the year under review, the Group's operations were mainly financed by internal resources, including but not limited to existing cash and cash equivalents, cash flow generated from operating activities, the net proceeds generated from the listing of shares of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited on June 9, 2017, funds from Convertible Bonds (as defined below) issued and the net proceeds derived from the Placing (as defined below). The Board believes that the Group's liquidity needs will be satisfied.

As of December 31, 2019, the Group's current assets amounted to approximately RMB326.5 million (unaudited) (as at December 31, 2018: approximately RMB577.2 million), with cash and cash equivalents totaling approximately RMB145.1 million (unaudited) (as at December 31, 2018: approximately RMB267.0 million). The cash and cash equivalents of the Group are principally held in RMB and USD.

As of December 31, 2019, the Group's total interest-bearing liabilities amounted to RMB 253.2 million (unaudited) (as of December 31, 2018: RMB404.8 million), representing lease liabilities, issued Convertible Bonds (as defined below) and promissory notes issued to the vendor in relation to acquisition of Green Harmony. All interest-bearing liabilities will be due repayable after one year but within five years (except for current portion of lease liabilities of approximately RMB7.8 million which is payable within one year) with coupon rates range from 4% to 4.75% per annum. The net debt-to-equity ratio (referred as to the gearing ratio: interest-bearing liabilities less cash and cash equivalents divided by total equity) was approximately 48.0% as of December 31, 2019 (as of December 31, 2018: 34.4%).

Issue of convertible bonds

Pursuant to subscription agreements entered into by the Company on July 31, 2018, the Company issued convertible bonds (the "**Convertible Bonds**") with aggregate principal amount of HKD150,000,000 at coupon interest rate of 4% per annum to Software Research Associates, Inc., an independent investor, on August 13, 2018 (the "**Issue Date**"). The aggregated net proceeds from the issue of the Convertible Bonds was approximately HKD146.0 million. The reason for the issue of the Convertible Bonds was to raise fund to settle the consideration for the acquisition of Green Harmony. The Convertible Bonds will mature on the date falling 24 months from the Issue Date and may be extended to 36 months from the Issue Date at the request of the Company. At any time after the Issue Date prior to maturity, the holder of the Convertible Bonds shall have the right to convert in whole or in part the outstanding principal amount of the Convertible Bonds into such number of fully paid ordinary shares of the Company (the "**Shares**") with an initial conversion price of HKD2.50 per share (the "**Initial Conversion Price**") which is subject to anti-dilutive adjustments arising from such events. Based on the Initial Conversion Price and assuming full conversion of the Convertible Bonds at the Initial Conversion Price, the Convertible Bonds will be convertible into 60,000,000 Shares (with an aggregate nominal value of HKD6,000). The Initial Conversion Price represents (i) a premium of approximately 28.21% to the closing price of HKD1.950 per Share as quoted on the Stock Exchange on July 31, 2018 (the "**Last Trading Day**"); (ii) a premium of approximately 28.34% to the average closing price of HKD1.948 per Share as quoted on the Stock Exchange for the five trading days prior to and including the Last Trading Day; and (iii) a premium of approximately 28.14% to the average of closing price of HKD1.951 per Share as quoted on the Stock Exchange for the ten trading days prior to and including the Last Trading Day. Please refer to the announcements of the Company dated July 31, 2018 and August 13, 2018 for further details.

During the year under review, the Company has extended the maturity date of the Convertible Bonds to the date falling 36 months from the Issue Date, i.e. August 13, 2021 by serving an extension notice to Software Research Associates, Inc. in accordance with the terms and conditions of the Convertible Bonds.

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the year under review and the corresponding period in 2018, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

Capital Commitments

As at December 31, 2019, the Group had no capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements (unaudited) (as at December 31, 2018: Nil).

Contingent Liabilities

As at December 31, 2019, the Group had no contingent liabilities (unaudited) (as at December 31, 2018: Nil).

Charge on assets

As at December 31, 2019, the Group had no charge of assets (unaudited) (as at December 31, 2018: Nil).

Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the year under review, there was no material acquisition or disposal of subsidiaries or associated companies.

Acquisition of NM Technology

In March 2018, Harvest Year Global Limited ("**Harvest Year**"), a direct wholly owned subsidiary of the Company, entered into a conditional sales and purchase agreement (the "**NM SPA**") to acquire North Mountain Information Technology Company Limited ("**NM Technology**"), which directly holds the entire equity interest of a company established in China, which is principally engaged in sales and distribution of electronic components, in particular for ICs and related products in China (the "**Acquisition of NM Technology**"). The Acquisition of NM Technology was completed on April 30, 2018.

Pursuant to the NM SPA, the final payment of the consideration for the Acquisition of NM Technology (subject to adjustment and deduction) will be determined and settled by the allotment and issue of consideration shares (the "**Consideration Shares**") by the Company to the vendor of NM Technology (the "**NM Vendor**") pursuant to the terms of the NM SPA.

According to the adjustment mechanism stipulated in the NM SPA and with reference to the financial information of NM Technology and its subsidiaries for the year ended December 31, 2018, no adjustment to the consideration was required. On June 14, 2019, the Company issued 16,434,826 Consideration Shares to the NM Vendor as settlement of the final payment of the consideration.

Please refer to the announcements of the Company dated March 15, 2018, April 30, 2018, July 20, 2018 and June 14, 2019 for further details.

Acquisition of Green Harmony

In December 2017, the Company entered into a conditional sale and purchase agreement (the "**GH SPA**") to acquire Green Harmony, which indirectly holds the entire equity interest of a group of companies established in China with principal activities of provision of MSI for the petroleum and petrochemicals industry (the "**Acquisition of Green Harmony**"). The Acquisition of Green Harmony was completed on August 15, 2018.

On August 15, 2018, the Company issued an unsecured promissory note (the "**First Promissory Note**") with a face value of HKD200 million, with a coupon interest rate of 8% per annum and be repayable on August 14, 2019, to Sailen International IOT Limited (the "**GH Vendor**"). On December 31, 2018, the Company further issued an unsecured promissory note (the "**Second Promissory Note**") with a face value of HKD200 million, with a coupon interest rate of 8% per annum and be repayable on December 30, 2020, to the GH Vendor. On March 15, 2019, the repayment due date of the First Promissory Note was extended to August 14, 2020.

On March 18, 2019, the Company redeemed from the GH Vendor the principal amount of HKD100 million of the First Promissory Note, together with payment of the accrued interest.

According to the adjustment mechanism stipulated in the GH SPA and with reference to the financial information of the Green Harmony and its subsidiaries for the year ended December 31, 2018, adjustment to the consideration was made. The final consideration of the Acquisition of Green Harmony was determined to be approximately HK$423 million.

On November 25, 2019, the Company and the GH Vendor entered into a supplemental agreement, pursuant to which, (i) the face value of the First Promissory Note was reduced to HK$20 million as the Company has redeemed the principal amount of HK$80 million of the First Promissory Note and the face value of the Second Promissory Note was reduced to approximately HK$123 million due to the adjustment of the consideration pursuant to the adjustment mechanism under GH SPA; (ii) the maturity date of the First Promissory Note and the Second Promissory Note was further extended to August 14, 2021 and December 30, 2021, respectively; and (iii) the coupon rates of the First Promissory Note and Second Promissory Note were reduced to 4% per annum, respectively, from the date of such supplemental agreement (i.e. November 25, 2019).

As of the date of this announcement, the remaining principal amount of the First Promissory Note and Second Promissory Note (collectively referred as to the "**Consideration Notes Payables**") are HK$20 million and approximately HK$123 million, respectively.

Please refer to the announcements of the Company dated December 1, 2017, December 28, 2017, January 3, 2018, January 10, 2018, February 12, 2018, March 23, 2018, May 31, 2018, August 15, 2018, March 15, 2019 and November 25, 2019 for further details.

Prospects

According to an independent market research, the procurement of AMR products by State Grid is further expected to be approximately 87.7 million units per annum by 2021 as smart meters and other terminals in China had entered a new phase of upgrades (including upgrades to broadband PLC protocols) since 2018 and the bidding volume of smart meters and other terminals conducted by State Grid and Southern Grid is expected to grow at a compound annual growth rate of 11.5% from years 2017 to 2021, in accordance with the independent market research. In conjunction to the centralised biddings conducted by the State Grid every year, a decentralised bidding system were carried out by individual provincial and local power grid companies under State Grid in view of speeding up the local needs and progress of the upgrade and replacement of broadband AMR products in each geographical area. Also, broadband AMR products are relatively substitutable under unified standard of communication protocols with the major feature i.e. interconnection and intercommunication (互聯互通), as the costs of supply chain management are low to the customers; market participants have to compete in terms of, such as, timely delivery, competitive pricing, product reliability and effectiveness to increase product recognition, brand awareness and market share. This fundamental change created a much fiercer and more intense market competition in the broadband AMR market in State Grid.

As mentioned in the "Business Review", the Group experienced an unexpected delay in debut of the Group's PLC based broadband AMR product in 2019. It has postponed the Group's participation in certain centralized biddings to be conducted by State Grid as well as certain local biddings in 2019 and 2020, and hence has lead to a potential loss of market share which could hamper the financial performance of the Group's AMR and other business in the short run. Fortunately, the Group was informed by China Electric Power Research Institute on March 2, 2020 that the Group's PLC broadband chipsets has passed all the functional tests set out by the Institute. Based on the currently available information, the Directors can reasonably expect that China Electric Power Research Institute will officially issue the certificate letter to endorse our PLC broadband chipsets and modules which meet the protocol standards of broadband system-on-chip ICs promulgated by the State Grid in the near future. The Group will use its best endeavor to expedite the release of PLC based broadband products to the market as early as possible and to regain our competitiveness in the AMR industry in China. Unfortunately, the recent outbreak of the Epidemic in the PRC may bring certain operational and financial risks encountered by the Group in the first half of 2020 but the Directors still expect an official launch of these products in the State Grid market in second half of 2020.

For the Group's SMIA business the Group believes that the growth of China industrial automation market would continue to be healthy given its relatively lower penetration rate and the rising cost of labor at present. Petrochemical enterprises are the pioneer of the manufacturing sector in China, major market participants are building smart oil fields, smart pipelines and smart factories. The Group will continue to opt for opportunities in the design and implementation of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry, other manufacturing and construction businesses by utilising the Group's own technologies and intellectual property rights.

In the coming future, the Group plans to expand its SMIA business segment through formation of strategic alliance and cooperation with internationally renowned system integrators to provide existing and potential customers with value-adding solutions on its engineering process design and digital engineering design as well as software solutions for Industrial Control System (ICS) network security. Through in-depth strategic cooperation and technology exchange, the Group aims to enhance the expertise in intelligent factory integrated solutions in petroleum refining and pipeline construction. At the same time, the Group will utilise its own research and development resources with the co-development with external expertise to further develop self-owned intellectual property rights on application program interface and visual integrated management platform for the intelligent factory as well as the integration of the online and core applications over the big data collaboration platform. Such intellectual property will strengthen the Group's core competitiveness while leveraging the Group's PLC technology. By exploring these new profit-driven business opportunities, the Group believes that it will persist a more diversified growth in the market in the long run.

OTHER INFORMATION

Final Dividend

The Board did not recommend the payment of a final dividend for the year under review.

Compliance with the Corporate Governance Code of the Listing Rules

The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code during the year under review. The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' transactions in securities of the Company (the "**Company's Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's Code during the year under review.

Purchase, Redemption or Sale of the Listed Securities of the Company

Reference is made to the announcements of the Company dated October 15, and October 31, 2019. On October 31, 2019, the Company has placed 147,500,000 Shares to not less than six placees at the placing price of HK$0.40 each ("**Placing**"). The Shares were allotted and issued under the general mandate granted to the Directors by a resolution passed by the then shareholders of the Company at the annual general meeting of the Company held on May 23, 2019. The gross proceeds raised from the Placing were approximately HK$59.0 million and the net proceeds derived from the Placing (after deduction of the relevant expenses) were approximately HK$58.5 million, which were used by the Company for partial settlement of the outstanding principal of the First Promissory Note during the year under review. Save as disclosed, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year under review.

Event after the Reporting Period

Details of significant event which would cause material impact on the Group from the end of the year under review to the date of this announcement is set out in note 14 to the notes to the unaudited results announcement.

Saved as disclosed, there is no other significant event which would cause material impact on the Group from the end of the year under review to the date of this announcement.

Use of Proceeds

From Initial Global Offering

References are made to the announcements of the Company dated June 8, 2017, June 21, 2017 and July 3, 2019. The aggregated net proceeds from the global offering of the shares of the Company 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 (as defined in the prospectus of the Company dated May 29, 2017 (the "**Prospectus**")) was approximately HKD158.2 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.

On July 3, 2019, the Board resolved to change the use of the unutilized net proceeds (the "**Re-allocation**"). For details of the Reallocation, please refer to the announcement of the Company dated July 3, 2019.

The following table presented the utilization of the net proceeds during the year under review as well as the Re-allocation made as of July 3, 2019:

	Original planned use of net proceeds	**Re-allocation on July 3, 2019**	**Amount utilized as at December 31, 2019**	**Unutilized net proceeds as at December 31, 2019**
	HKD'million	*HKD'million*	*HKD'million*	*HKD'million*
Research and development of the PLC technology	95.7	(37.8)	40.1	17.8
Sales and marketing	32.0	(6.9)	10.2	14.9
Repayment of an entrusted bank loan	14.7	–	14.7	–
Working capital and general corporate purposes	15.8	–	15.8	–
Repayment of interest expenses	–	44.7	21.7	23.0
	158.2	–	102.5	55.7

As at the date of this announcement, the Company does not anticipate any change to the above plan of use of proceeds. The remaining unutilized net proceeds as at December 31, 2019 are expected to be fully utilized on or before December 31, 2021.

From Issue of the Convertible Bonds

References are made to the announcements of the Company dated July 31, 2018 and August 13, 2018 and the paragraph headed "Management Discussion and Analysis — Financial Review — Issue of convertible bonds" of this announcement. The aggregated net proceeds from the issue of the Convertible Bonds was approximately HKD146.0 million.

During the year under review, the net proceeds had been applied for as follows:

	Actual Net proceeds	Amount utilized as at December 31, 2019	Unutilized net proceeds as at December 31, 2019
	HKD'million	*HKD'million*	*HKD'million*
Settle consideration for the acquisition of Green Harmony	146.0	146.0	–

As at December 31, 2019, the net proceeds from issue of Convertible Bonds were fully utilized.

From Issue of the Placing Shares

References are made to the announcements of the Company dated October 15, and October 31, 2019 and the paragraph headed "Other Information — Purchase, Redemption or Sale of the Listed Securities of the Company" of this announcement. The aggregated net proceeds derived from the Placing (after deduction of the relevant expenses) were approximately HK$58.5 million.

During the year under review, the net proceeds had been applied for as follows:

	Actual Net proceeds	Amount utilized as at December 31, 2019	Unutilized net proceeds as at December 31, 2019
	HKD'million	*HKD'million*	*HKD'million*
Partial settlement of the outstanding principal of the First Promissory Note	58.5	58.5	–

As at December 31, 2019, the net proceeds from the Placing were fully utilized.

Employee Information

The emolument policy of the employees of the Group is set up by the management on the basis of their merits, qualifications and competence.

As at December 31, 2019, the Group had an aggregate of 221 employees (as at December 31, 2018: 355 employees). The Group recruited and promoted individual persons according to their capabilities and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and prevailing market salary scale.

The Group is dedicated to the training and development of its employees. The Group leverages its research and development capabilities and other resources to ensure that each employee maintains a current skill-set through continuous training. The Group provides introductory training and orientation for all new employees, as well as on-the-job training to continually improve its employees' technical, professional and management skills. The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, who contribute to the success of the Group's operations.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") is responsible for assisting the Board in safeguarding the Group's assets by providing an independent review of the effectiveness of the financial reporting process and the internal controls and risk management systems of the Group. It also performs other duties as assigned by the Board.

Due to the outbreak of the coronavirus (COVID-19) epidemic (the "**Epidemic**") in the PRC since early 2020, the auditing process for the annual results for the year ended December 31, 2019 was inevitably delayed and can not be completed as planned mainly due to (i) travel and transportation restrictions in force as well as the quarantine measures for travelers imposed by State government and municipal governments in various cities in the PRC which prevented the auditor from performing certain audit procedures on site; and (ii) delay in receiving audit confirmations from customers and suppliers. In view of the above, the unaudited annual results for the year ended December 31, 2019 contained herein have not been agreed by the Company's auditors.

The Audit Committee has discussed with the management of the Group and reviewed the unaudited annual financial results of the Group for the year under review, including the accounting principles and practices adopted by the Group, underlying assumptions of goodwill impairment tests and accounting estimates, and discussed financial reporting and internal control related matters.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants, the Company will issue further announcement(s) in relation to (i) the audited annual results for the year ended December 31, 2019 and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process. It is expected that the annual results for the year ended December 31, 2019 will be agreed by the Company's auditors and published on or before April 30, 2020, subject to the release of travel and transportation restrictions in the near future.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors but reviewed by the Board. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, March 30, 2020

As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Tang Andong and Mr. Lau Wai Leung, Alfred, the non-executive Directors are Mr. Cheung Fan, Mr. Wang Shiguang and Mr. Zhou, Francis Bingrong and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.