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 THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB149.8 million (2021: approximately RMB248.2 million), representing a decrease of approximately 39.6%.
- Revenue from Automated Meter Reading ("**AMR**") and other business segment increased by approximately 82.6% to approximately RMB88.1 million (2021: approximately RMB48.3 million) as compared with the corresponding period in 2021.
- Revenue from Smart Manufacturing & Industrial Automation ("**SMIA**") business segment decreased by approximately 69.1% to approximately RMB61.7 million (2021: approximately RMB199.9 million) as compared with the corresponding period in 2021.
- Net loss for the year attributable to equity shareholders of the Company amounted to approximately RMB118.6 million (2021: net loss attributable to equity shareholders of the Company approximately RMB55.3 million).
- Basic loss per share for the year amounted to approximately RMB6.61 cents (2021: basic loss per share approximately RMB5.05 cents).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2022.

The board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2022 (the "**year under review**"), together with the comparative figures for the corresponding period in 2021 or other dates/periods as set out in this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	Note	**2022** *RMB'000*	2021 *RMB'000*
Revenue	*4*	**149,851**	248,154
Cost of sales		**(110,775)**	(205,149)
Gross profit		**39,076**	43,005
Other income, (losses)/gains	*5*	**(594)**	6,169
(Allowance)/reversal for impairment losses on financial assets, net		**(7,356)**	10,271
Selling and marketing expenses		**(17,314)**	(24,728)
General and administrative expenses		**(55,165)**	(60,762)
Research and development expenses		**(22,265)**	(19,596)
Loss from operations		**(63,618)**	(45,641)
Impairment losses of goodwill		**(20,718)**	–
Impairment losses of intangible assets		**(46,706)**	–
Finance costs	*7*	**(7,358)**	(9,487)
Share of results of an associate		**–**	(42)
Fair value gains/(losses) on financial instruments at fair value through profit and loss		**1,375**	(6,916)
Loss before tax		**(137,025)**	(62,086)
Income tax credit	*8*	**17,930**	6,833
Loss for the year	*9*	**(119,095)**	(55,253)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Loss for the year	9	**(119,095)**	(55,253)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Fair value changes of equity investment at fair value through other comprehensive income ("FVTOCI")		**(2,246)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(11,562)**	7,407
Other comprehensive income for the year, net of tax		**(13,808)**	7,407
Total comprehensive loss for the year		**(132,903)**	(47,846)
Loss for the year attributable to:			
Owners of the Company		**(118,584)**	(55,253)
Non-controlling interests		**(511)**	–
		(119,095)	(55,253)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(132,392)**	(47,846)
Non-controlling interests		**(511)**	–
		(132,903)	(47,846)
Loss per share attributable to owners of the Company			
Basic and diluted *(RMB cents)*	11	**(6.61)**	(5.05)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**18,192**	20,251
Right-of-use assets		**7,079**	10,310
Goodwill	*12*	**–**	20,718
Intangible assets		**47,777**	119,050
Interest in an associate		**–**	–
Financial assets at FVTOCI		**554**	–
Deferred tax assets		**34,472**	37,967
Total non-current assets		**108,074**	208,296
Current assets			
Inventories		**27,814**	15,890
Contract costs		**786**	786
Contract assets		**16,629**	33,987
Trade and other receivables	*13*	**98,766**	120,777
Restricted bank deposits		**2,619**	104
Bank and cash balances		**86,652**	91,705
Total current assets		**233,266**	263,249
TOTAL ASSETS		**341,340**	471,545
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**158**	151
Reserves		**74,734**	193,648
		74,892	193,799
Non-controlling interests		**(511)**	–
Total equity		**74,381**	193,799

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	**2022** *RMB'000*	2021 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**955**	1,624
Lease liabilities		**3,471**	7,248
Deferred tax liabilities		**10,609**	28,108
Borrowings		**2,683**	4,904
Total non-current liabilities		**17,718**	41,884
Current liabilities			
Trade and other payables	*14*	**113,512**	100,951
Contract liabilities		**6,207**	10,586
Borrowings		**122,528**	–
Lease liabilities		**4,122**	3,774
Acquisition consideration payables		**–**	–
Convertible bonds	*15*	**–**	117,590
Income tax payables		**2,872**	2,961
Total current liabilities		**249,241**	235,862
TOTAL EQUITY AND LIABILITIES		**341,340**	471,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

Risecomm Group Holdings Limited (the "**Company**" together with its subsidiaries, the "**Group**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 19 August 2015 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company in China is 41/F, Block A, Building 8, Shenzhen International Innovation Valley, Xili Street, Nanshan District, Shenzhen, the People's Republic of China (the "**PRC**").

The Company is an investment holding company. The principal activities of its subsidiaries are (i) Manufacturing and sales of AMR products in the PRC; (ii) SMIA business and construction in the PRC; (iii) Sales and marketing in the PRC; and (iv) Research and development in the PRC;

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap.622). Significant accounting policies adopted by the Group are disclosed below.

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 3 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 period reflected in these consolidated financial statements.

The Group incurred a net loss of approximately RMB119,095,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,975,000. Its current borrowings and lease liabilities amounted to approximately RMB122,528,000 and approximately RMB4,122,000 respectively while its cash and cash equivalents amounted to approximately RMB86,652,000 only. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors have taken the following measures:

(a) The Group is in progress to implement operational plans to control costs and generate sufficient operating cash flows to meet its current and future obligations. These actions include cost control measures, and timely collection of outstanding receivables;

(b) The Group is in progress to negotiate with the lender for extension of repayment date of the borrowings amounted to HK$120,000,000 due by 11 August 2023; and

(c) The Group plans to raise new funding by means of equity financing.

The directors have reviewed the Group's cashflow projections prepared by the management. The cash flow projection cover a period of not less than twelve months from 31 December 2022. Having taken into account the above-mentioned plans and measures, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due within the next twelve months from the date of the consolidated statement of financial position. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

However, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. As of the date of approval of the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced. Negotiations with the lender to extend the repayment date of the borrowings amounted to HK$120,000,000 due by 11 August 2023 have not yet been concluded.

Should the Group fail to achieve the above-mentioned plans and measures, it may be unable to continue as a going concern, and adjustments would have to be made to write down the carrying value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Filfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Project	Annual Improvements to HKFRS Standard 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination

The application of the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. The new standard, amendments to standards and interpretation include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 — Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 — Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16 — Lease Liability in a Sales and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. 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 AMR systems by power grid companies in the PRC and for a wide range of applications related to energy saving and environmental protection.

The Group is also engaged in the sales of software license, production safety products, construction contracts as well as the provision of software post-contract customer support services in connection with the SMIA applied in the area of maintenance and safety integrity system in the petroleum and petrochemicals industry.

(a) Disaggregation of revenue

An analysis of the Group's revenue for the year is as follows:

	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products or service lines:		
AMR and other business		
— PLC Integrated circuits ("**ICs**")	**10,320**	19,137
— PLC Modules	**39,670**	1,139
— Other products	**34,417**	15,572
— AMR maintenance services	**3,733**	12,434
Sub-total of AMR and other business	**88,140**	48,282
SMIA business		
— Software license	**34,294**	82,492
— Production safety products	**19,510**	22,892
Sub-total of SMIA business	**53,804**	105,384
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products or service lines:		
SMIA business		
— Post-contract customer support service	**3,501**	2,668
— Construction contracts	**4,406**	91,820
Sub-total of SMIA business	**7,907**	94,488
Total	**149,851**	248,154

(b) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 and the expected timing of recognising revenue as follows:

	Software license		**Post-contract customer support service**	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**29,619**	32,733	**3,291**	3,637
More than one year but not more than two years	**14,053**	29,619	**1,562**	3,291
More than two years	**21,080**	35,133	**2,342**	3,904
	64,752	97,485	**7,195**	10,832

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its construction contracts 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 the construction contracts that had an original expected duration of one year or less.

5. OTHER INCOME, (LOSSES)/GAINS

	2022	2021
	RMB'000	*RMB'000*
Interest income from bank deposits	**992**	1,367
Government grant		
— Unconditional subsidies *(note (a))*	**2,161**	3,299
— Conditional subsidies *(note (b))*	**752**	1,360
Gain/(loss) on disposals of property, plant and equipment	**47**	(174)
Loss on deregistration of a subsidiary	**(5,148)**	–
Net foreign exchange loss	**(511)**	(344)
Rental income	**583**	493
COVID-19 rental concession	**547**	–
Others	**(17)**	168
	(594)	6,169

Notes:

(a) 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.

(b) During the year, the Group recognised an amount of approximately RMB752,000 (2021: approximately RMB1,360,000) of government grants in respect of the acquisition of plant and equipments for supporting research and development stages related subsidies, and Employment Support Scheme provided by Hong Kong government.

6. SEGMENT INFORMATION

The Group manages its businesses by business lines. Segmental information has been presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment.

The Group has two reportable segments, which are (a) AMR and other business; and (b) SMIA business.

The Group's reportable segments are as follows:

AMR and other business	This segment includes design, development and sale of power-line communication products, energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, etc. and providing maintenance services in connection with the deployment and upgrading of AMR systems by power grid companies in the PRC.
SMIA business	This segment includes sales of software license, production safety products, construction contracts as well as the provision of software post-contract customer support services in connection with the smart manufacturing and industrial automation system applied in the petroleum and petrochemicals industry.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include unallocated general and administrative expenses, share of result of an associate, other income, (losses)/gains, fair value gains/(losses) on financial instruments at fair value through profit or loss, finance costs, impairment losses of goodwill, impairment losses of intangible assets, (allowance)/reversal for impairment losses of financial assets, net and income tax credit.

No segment assets or liabilities information or other segment information is provided as the Group's most senior executive management does not review this information for the purpose of resource allocation and assessment of segment performance.

(a) Information about operating segment profit or loss

The segment information provided to the Group's most senior executive management for the reportable segments for the years ended 31 December 2022 and 2021 is as follows:

Year ended 31 December 2022	**AMR and other business** *RMB'000*	**SMIA business** *RMB'000*	**Total** *RMB'000*
Revenue	**88,140**	**61,711**	**149,851**
Cost of Sales	**(60,539)**	**(50,236)**	**(110,775)**
Selling and marketing expenses	**(10,604)**	**(6,710)**	**(17,314)**
Research and development expenses	**(21,246)**	**(1,019)**	**(22,265)**
Reportable segment results	**(4,249)**	**3,746**	**(503)**
Amortisation expenses of intangible assets identified in acquisitions	**–**	**22,036**	**22,036**

Year ended 31 December 2021	AMR and other business *RMB'000*	SMIA business *RMB'000*	Total *RMB'000*
Revenue	48,282	199,872	248,154
Cost of Sales	(31,343)	(173,806)	(205,149)
Selling and marketing expenses	(10,128)	(14,600)	(24,728)
Research and development expenses	(17,974)	(1,622)	(19,596)
Reportable segment results	(11,163)	9,844	(1,319)
Amortisation expenses of intangible assets identified in acquisitions	–	22,036	22,036

(b) Reconciliations of segment revenue and profit or loss

	2022	2021
	RMB'000	*RMB'000*
Reportable segment results	**(503)**	(1,319)
Other income, (losses)/gains	**(594)**	6,169
General and administrative expenses	**(55,165)**	(60,762)
Finance costs	**(7,358)**	(9,487)
Share of results of an associate	**–**	(42)
(Allowance)/reversal for impairment losses of financial assets, net	**(7,356)**	10,271
Impairment losses of goodwill	**(20,718)**	–
Impairment losses of intangible assets	**(46,706)**	–
Fair value gains/(losses) on financial instruments at fair value through profit or loss	**1,375**	(6,916)
Loss before taxation	**(137,025)**	(62,086)

No geographical segment information is presented as all the sales and operating losses of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

(c) Revenue from major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	2022	2021
	RMB'000	*RMB'000*
Customer A	**36,369**	36,313
Customer B *(note)*	**–**	91,580
Customer C *(note)*	**–**	28,118
Customer D	**20,678**	–
Customer E	**17,708**	–

Note: Revenue from these customers for the year ended 31 December 2022 did not contribute over 10% of the total revenue for the year.

7. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest expenses on promissory notes	**–**	8,793
Interest expenses on lease liabilities	**461**	616
Interest expenses on bank and other borrowings	**2,589**	78
Imputed interest expenses on other borrowings	**4,308**	–
	7,358	9,487

8. INCOME TAX CREDIT

Income tax has been recognised in profit or loss as follows:

	2022	2021
	RMB'000	*RMB'000*
Current tax		
Provision for the year	**1,382**	787
Over-provision in prior years	**(1,175)**	(14)
The PRC dividend withholding tax	**1,022**	–
	1,229	773
Deferred tax		
Over-provision in prior years	**–**	(2,157)
Changes in temporary differences	**(19,159)**	(5,449)
	(19,159)	(7,606)
	(17,930)	(6,833)

9. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2022	2021
	RMB'000	*RMB'000*
Amortisation of intangible assets	**24,567**	22,658
Cost of inventories sold	**73,040**	40,201
Cost of AMR maintenance services	**3,651**	9,380
Cost of software license sold	**27,317**	64,864
Cost of post-contract customer support	**3,034**	2,133
Cost of construction project	**4,038**	86,025
Depreciation of property, plant and equipment	**2,758**	4,499
Depreciation of right-of-use asset	**3,682**	4,782
(Gain)/loss on disposals of property, plant and equipment *(note 5)*	**(47)**	174
COVID-19 rental concession *(note 5)*	**(547)**	–
Staff costs	**38,889**	36,290
— Salaries, bonuses and allowances	**33,646**	31,997
— Retirement benefit scheme contributions	**4,941**	3,476
— Share-based payments	**302**	817
Research and development expenses	**22,265**	19,596
Auditor's remuneration	**1,960**	2,458
— Audit services	**1,680**	2,080
— Non-audit services	**280**	378
Allowance/(reversal) for impairment losses of financial assets, net	**7,356**	(10,271)
(Reversal)/provision for impairment loss on inventories	**(305)**	2,546
Impairment losses of goodwill *(note 12)*	**20,718**	–
Impairment losses of intangible assets	**46,706**	–

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of intangible assets and operating lease charges of approximately RMB1,810,000 (2021: RMB1,797,000) which are included in the amounts disclosed separately.

Research and development expenses includes staff costs, professional fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets and materials consumed of approximately RMB14,390,000 (2021: RMB13,696,000) which are included in the amounts disclosed separately.

10. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the years ended 31 December 2022 and 2021.

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2022	2021
	RMB'000	*RMB'000*
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	**(118,584)**	(55,253)

	2022	2021
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**1,793,701**	1,093,887

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2022 and 2021 due to loss making for the years ended 31 December 2022 and 2021.

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as the exercise price of those share options was higher than the average market price for shares for the years ended 31 December 2022 and 2021.

The computation of diluted loss per share for the year ended 31 December 2021 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 31 December 2021.

On 17 December 2021, the Company offered rights issue to its existing shareholders at a subscription price higher than its market price. Therefore, there were no bonus elements for this rights issue and the weighted average number of ordinary shares were not adjusted for the year ended 31 December 2021.

12. GOODWILL

	2022	2021
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**215,147**	215,147
Accumulated impairment losses		
At 1 January	**(194,429)**	(194,429)
Impairment losses recognised for the year	**(20,718)**	–
At 31 December	**(215,147)**	(194,429)
Carrying amount		
At 31 December	**–**	20,718

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The net carrying amount of goodwill is allocated as follows:

	2022	2021
	RMB'000	*RMB'000*
AMR and other business *(note (a))*	**–**	–
SMIA business *(note (b))*	**–**	20,718
	–	20,718

In addition to goodwill, property, plant and equipment, right-of-use assets and other intangible assets that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

(a) AMR and other business

Goodwill has been fully impaired as at 31 December 2020.

For the year ended 31 December 2022, the CGU recorded operating losses amounting to RMB4,249,000 (2021: RMB11,163,000). Management has identified an impairment indicator for the carrying amount of assets allocated to the CGU, including certain property, plant and equipment, certain right-of-use assets and certain intangible assets amount to approximately RMB17,552,000, RMB4,025,000 and RMB10,323,000 respectively. The recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2021: 2.0%) which does not exceed the long-term average growth rate for the business in which the respective CGU operate. The cash flows are discounted using pre-tax discount rate of 17.28% (2021: 17.25%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to the expected timing and amount of revenue and gross profit margin to be generated from the Group's PLC based broadband AMR products for the four-year budget period, which are based on the Group's historical market share and adjusted by recent market development based on available external sources of information.

The recoverable amount exceeded the carrying amount by approximately RMB43,298,000, and therefore, no impairment charge was considered necessary.

(b) SMIA business

As at 31 December 2022, the recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2021: 2.0%) which does not exceed the long-term average growth rate for the business in which the CGU operate. The cash flows are discounted using pre-tax discount rate of 19.83% (2021: 21.29%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to revenue growth rate and gross profit margin for the four-year budget period, which take into account the CGU's historical performance, existing backlog contracts, pipelines and the management's business development plan built upon industry trends.

There was a significant decrease in revenue and gross profit of the SMIA business segment for the year ended 31 December 2022 as compared to that of 2021 which was primarily attributable to the cessation of the construction projects and delay of the contracts awarded during the year. Given the financial performance of the SMIA business segment for the year ended 31 December 2022 had not achieved the 2022 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, reassessed the sale pipeline and gross profit forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run. The carrying amount of the CGU for 2022 in relation to SMIA business is approximately RMB130,629,000 (2021: RMB185,016,000).

The carrying amount of assets of the CGU exceeded the recoverable amount by approximately RMB67,424,000. As a result, impairment losses for goodwill and intangible assets has been recorded amounting RMB20,718,000 and RMB46,706,000 during the year respectively (2021: Nil and Nil respectively). A 2% underperformance against forecast sales growth rates would lead to a further impairment to non-current assets of the Group of RMB39,457,000.

13. TRADE AND OTHER RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**120,247**	141,883
Bills receivable	**64**	4,351
Allowance for impairment losses of trade receivables	**(60,081)**	(56,977)
	60,230	89,257
Prepayments	**17,038**	25,609
Income tax recoverable	**–**	243
Other receivables	**14,836**	7,586
Loan receivables *(note (a))*	**9,580**	1,000
Allowance for impairment losses of other receivables	**(2,918)**	(2,918)
	38,536	31,520
Total trade and other receivables	**98,766**	120,777

Note

(a) The amount receivables under the loan agreements are arranged at fixed interest rates of 0% to 5% per annum, which are recoverable in one year. The Group considers that those receivables remain appropriate to measure them at amortised cost.

The Group generally allows an average credit period of 180 days (2021: 180 days) for its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The aging analysis of trade and bills receivables, net of allowance for impairment of trade and bills receivables, presented based on the invoice dates is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 6 months	**17,182**	69,140
After 6 months but within 1 year	**2,831**	5,461
Over 1 year	**40,217**	14,656
	60,230	89,257

The carrying amounts of the Group's trade receivables are mainly denominated in RMB.

14. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**93,427**	85,447
Product warranty provision	**1,037**	557
Other payables and accruals	**19,048**	14,947
	113,512	100,951

Trade payables comprised amounts due to suppliers for purchase of goods or services used in regular course of business. Trade payables are non-interest bearing and generally due upon demand. The aging analysis of trade payables based on the invoice dates is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**39,280**	59,348
After 3 months but within 6 months	**20,802**	2,067
After 6 months but within 1 year	**2,890**	1,706
Over 1 year but within 2 years	**11,949**	19,051
Over 2 years	**18,506**	3,275
	93,427	85,447

The carrying amounts of the Group's trade payables are mainly denominated in RMB.

15. CONVERTIBLE BONDS

	2022	2021
	RMB'000	*RMB'000*
Balance at 1 January	**117,590**	119,076
Payment for interest on convertible bonds	**(5,116)**	(4,954)
Redemption upon maturity	**(119,612)**	–
Re-measurement on convertible bonds	**(1,375)**	6,916
Foreign currency exchange adjustment	**8,513**	(3,448)
Balance at 31 December	**–**	117,590

On 13 August 2018 ("**Issue Date**"), the Group issued convertible bonds to an independent third party (the "**Holder**") with principal amount of HK$150,000,000 (equivalent to approximately RMB131,130,000) with a maturity period of two years to 13 August 2020 ("**Maturity Date**"). The Maturity Date may be extended to the date falling 36 months from the Issue Date at the request of the Group ("**the Extended Maturity Date**"). In 2019, the Group has exercised the extension right by serving an extension notice to the Holder in accordance with terms and conditions of the convertible bonds. As a result, the Maturity Date has been changed to 13 August 2021.

The convertible bonds bear interest at a coupon rate of 4% per annum, payable semi-annually in arrears in the sixth month after the Issue Date and in every sixth month thereafter to and including the Maturity Date or the Extended Maturity Date as the case may be.

On 13 August 2020, the conversion price of the convertible bonds adjusted from HK$2.5 to HK$0.8 per share. The convertible bonds can be converted into ordinary shares of the Company at the holder's option at an conversion price of HK$0.80 per share subject to adjustment for, among other matters, sub-division, consolidation and reclassification of shares, issue of shares in lieu of the whole or any part of a specifically declared cash dividend, capital distributions, issue of convertible securities, issue of new shares in discount, consideration issues and other dilutive events.

On 13 August 2021, the Group and the convertible bond holder entered into the second amendment and extension agreement, pursuant to which, the Company and the bondholder conditionally agreed to further extend the Extended Maturity Date of the convertible bonds by 12 months from 13 August 2021 to the new maturity date of 13 August 2022 by way of executing the second supplemental deed.

As at 2 September 2022, the Group has fully redeemed its convertible bonds at their principal amounts of HK$150,000,000 by refinancing through a loan from the bondholder. The interest accrued thereon from the last interest payment date up to the maturity date has also been fully paid.

The entire convertible bonds are designated as financial liabilities at FVTPL since inception date.

Fair value of the Group's convertible bonds was determined by an independent professional valuation firm by using lattice model with the following key inputs:

	31 December 2021	Date of issue
Risk free rates	0.19%	1.87%
Discount rate	14.34%	18.40%
Dividend yield	0%	0.95%
Expected volatility	56.98%	57.28%

16. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

Related party transactions

	2022	2021
	RMB'000	*RMB'000*
Office premises rental expenses paid to Wang Shiguang (*note*)	**–**	362
	–	362

Note: Mr. Wang Shiguang was one of the Non-Executive Director of the Group. Mr. Wang has retired as Non-Executive Director with effect from 25 June 2021.

As at 31 December 2022, the Group had Nil balance with related parties (2021: Nil).

(b) The remuneration of Directors and other members of key management during the year were as follows:

	2022	2021
	RMB'000	*RMB'000*
Short-term employee benefits	**8,588**	7,853
Post-employee benefits	**292**	313
	8,880	8,166

17. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2022 and up to the date of this announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below set out an extract of the report by RSM Hong Kong, the auditor of the Company, regarding the consolidated financial statements of the Group for the year under review.

Disclaimer of opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Material Uncertainties Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB119,095,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,975,000. Its current liabilities include borrowings and lease liabilities amounting to approximately RMB122,528,000 and approximately RMB4,122,000 respectively while its cash and cash equivalents amounted to approximately RMB86,652,000 only. These events and conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have undertaken a number of measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcomes of these measures, which are subject to significant uncertainties. As of the date of approval of the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced. Negotiations with the lender to extend the repayment date of the borrowings amounted to HK$120,000,000 due by 11 August 2023 have not yet been concluded.

Accordingly, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

THE AUDIT COMMITTEE'S VIEW AND THE PLAN TO ADDRESS THE DISCLAIMER OF AUDIT OPINION

The fundamental reason for the disclaimer of audit opinion (the "**Disclaimer**") made by the auditor of the Company for the year under review is the fact that the Group incurred a net loss of approximately RMB119.1 million during the year under review and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB16.0 million. Despite the fact that the Directors have undertaken a number of measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced and negotiation with the lender to extend the repayment date of borrowings amounted to HK$120 million due by 11 August 2023 have not yet been concluded as of the date of the consolidated financial statements were approved and authorised for issue by the Board. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Therefore, the auditor of the Company was unable to form an audit opinion on the consolidated financial statements. Please refer to note 2 to the consolidated financial statements for details.

The audit committee of the Company (the "**Audit Committee**") has reviewed the Disclaimer for the year under review and has well noted the basis thereof. The Audit Committee has also reviewed and agreed with the Board's position as set out above. The management of the Company (the "**Management**") has reviewed the impact of the Disclaimer on the Group and considers that it does not have significant impact on the Group's operation subject to (i) the Group is able to obtain further equity fund raising opportunities; and (ii) finalization of negotiation with the relevant creditors for the extension of repayment dates of the existing debts. The Management expects the Disclaimer will be removed in the financial year ending 31 December 2023 given the measures to be successfully implemented.

There was no disagreement between the views of the Audit Committee and the Management in respect of the Disclaimer and the Company's plan to address the Disclaimer.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Under the second round of transformation of the Electric Energy Data Acquisition Systems by the State Grid Corporation of China ("**State Grid**"), the construction goal of "full coverage, collection, and tariff control" is promoting the further development and upgrading of power line communication ("**PLC**") technology. Looking back on the transformation history of the PLC industry, China's PLC industry has completed the transition from narrowband single-mode technology to narrowband dual-mode technology, and has then turned to broadband single-mode technology in recent years. Now, State Grid is up to the setting of new standards and adoption of the next-generation dual-mode technology. The transition from broadband single-mode technology to broadband dual-mode technology will be initiated by State Grid shortly. Given the implementation of the dual-carbon policy, the dual control of energy consumption and the marketization of electricity price, it is expected that the focus of State Grid's procurement and bidding in the coming year will be on broadband dual-mode technology.

In 2022, State Grid conducted three rounds of centralized bidding for energy meters and Electric Energy Data Acquisition Systems, representing one extra round of bidding conducted compared to 2021. The number of tenders for Electric Energy Data Acquisition Systems was about 69.24 million, representing a year-on-year increase of approximately 3.7% compared with 2021.

In the context of the dual-carbon policy, new energy sources will be connected to the grid on a mass scale in the future, distributed power sources will be integrated to the grid, and the number of charging piles and energy storage demand will increase rapidly. In order to cope with such diversified demands, State Grid is accelerating the promulgation of new technical standards and the upgrade of smart meters. The overall market has great potential. However, US sanctions have triggered mismatches in domestic chip supply and delivery delays; the PLC market is highly competitive; and State Grid's accelerated replacement of industry standards and other factors have brought various uncertainties to the market in 2022.

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.

In the face of the current global manufacturing industry's transformation towards digitalization, networking and intelligence, there has been a continuous increase in policy support for the intelligent manufacturing industry by the PRC government. The "14th Five-Year Plan for Development of Smart Manufacturing" ("十四五" 智慧製造發展規劃) puts forward a number of development targets for 2025, including achieving fundamental digitisation and network transformation of 70% of large-scale manufacturing enterprises, the establishment of more than 500 smart manufacturing demonstration factories, and the creation of more than 200 national industry standards. By 2035, the plan envisages the "comprehensive and general digitisation and network transformation of large-scale manufacturing enterprises" as well as the "fundamental smart conversion of key industry backbone enterprises." In the future, rapid industrial development will promote the continuous expansion of the market scale of the intelligent manufacturing industry, bringing abundant opportunities to the Group.

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 ("**IC**"), 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 IC 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 the provision of software post-contract customer support services applied in the area of MSI for the petroleum and petrochemicals industry.

During the year under review, the Group recorded revenue of approximately RMB149.8 million (2021: approximately RMB248.2 million), representing a decrease of approximately 39.6%.

The Group's AMR and other business segment recorded a revenue of approximately RMB88.1 million (2021: approximately RMB48.3 million), representing an increase of approximately 82.6%. Revenue from AMR and other business segment for the year under review accounted for approximately 58.8% (2021: 19.5%) of the Group's total revenue. The increase in revenue from AMR and other business segment for the year under review was mainly attributable to (i) the commercialization of the Group's broadband AMR products which led to the increase in sales of PLC modules and (ii) the winning of a major streetlight control project which led to the increase in sales of streetlight control products, partially offset by the decrease in revenue from AMR maintenance services as the market demand for the Group's AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology.

The outbreak of the COVID-19 pandemic ("**Pandemic**") in early 2020 and its continuance in 2022 have affected the business and economic activities around the world and have brought about additional uncertainties to the Group's operating environment. The Pandemic has to a certain extent impacted the Group's operations and financial position.

The Group has been closely monitoring the impact from the Pandemic on the Group's business. Faced with further hamper and uncertainties on China's economy caused by, among others, ad hoc Pandemic, the Group has maintained a lean-cost strategy so as to reduce the operating cost to respond to the pressure in less revenue generated. The Group will continue to review the measures adopted.

During the year under review, the Group's SMIA business segment recorded a revenue of approximately RMB61.7 million (2021: approximately RMB199.9 million), representing a decrease of approximately 69.1%. Revenue from SMIA business segment for the year under review accounted for approximately 41.2% (2021: 80.5%) of the Group's total revenue.

The decrease in revenue from the SMIA business segment was mainly attributable to the unanticipated limitation imposed upon the Group in project sourcing and project delivery during the year under review as a consequence of China's highly restrictive Pandemic control measures. This resulted in the significant decrease in revenue as compared to the corresponding period in 2021.

The Group recorded an increase in loss attributable to the equity shareholders of the Company from approximately RMB55.3 million in the corresponding period in 2021 to approximately RMB118.6 million for the year under review.

The increase in loss attributable to the equity shareholders of the Company was mainly attributable to (i) the recognition of impairment losses on goodwill and intangible assets arising from the Group's acquisitions of Green Harmony Limited ("**Green Harmony**") for the year under review while no impairment of goodwill and intangible assets have been recognised in the corresponding period in 2021, and (ii) the recognition of a net allowance for impairment losses on financial assets for the year under review as compared to the recognition of a net reversal for impairment losses on financial assets in the corresponding period in 2021.

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 IC, 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 focus 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.

As at 31 December 2022, the research and development team of the Group consisted of 47 employees (as at 31 December 2021: 51 employees), representing approximately 31% (as at 31 December 2021: approximately 31%) 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 31 December 2022, the Group held a significant intellectual property portfolio, comprising 25 patents, 129 computer software copyrights and 9 IC layout designs registered, with 1 patent pending registration in the relevant jurisdiction, 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 RMB248.2 million for the corresponding period in 2021 to approximately RMB149.8 million for the year under review, or by approximately 39.6%. The decrease was attributable to the decrease in revenue of approximately 69.1% from the SMIA business segment which was partially offset by the increase in revenue of approximately 82.6% from the AMR and other business segment.

The decrease in revenue from the SMIA business segment was mainly attributable to the unanticipated limitation imposed upon the Group in project sourcing and project delivery during the year under review as a consequence of China's highly restrictive Pandemic control measures, which resulted in the decrease in revenue by approximately 69.1% to approximately RMB61.7 million as compared to the corresponding period in 2021.

The increase in revenue from the AMR and other business segment was mainly attributable to (i) the commercialization of the Group's broadband AMR products which led to the increase in sales of PLC modules and (ii) the winning of a major streetlight control project which led to the increase in sales of streetlight control products, partially offset by the decrease in revenue from AMR maintenance services as the market demand for the Group's AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology.

Gross profit

Gross profit decreased by approximately 9.1% to approximately RMB39.1 million for the year under review from approximately RMB43.0 million for the corresponding period in 2021.

Gross profit margin was approximately 26.1% for the year under review and increased by approximately 8.8 percentage points as compared with approximately 17.3% for the corresponding period in 2021. The increase in gross profit margin of the Group was mainly attributable to the increase in gross profit margin from the SMIA business segment by approximately 5.6% to approximately 18.6% for the year under review, partially offset by the decrease in gross profit margin from the AMR and other business segment by approximately 3.8% to approximately 31.3%.

The increase in gross profit margin from the SMIA business segment was mainly attributable to the increase in proportion of revenue from software license and production safety products which earned a relatively higher gross profit margin than that of other products or service lines.

The decrease in gross profit margin from the AMR and other business segment was mainly attributable to the increase in proportion of revenue from the sales of broadband AMR products which earned a relatively lower gross profit margin than that of narrowband AMR products.

Other income, (losses)/gains

Other losses of approximately RMB0.6 million was recognized during the year under review (for the corresponding period in 2021: other income, gains of approximately RMB6.2 million). The decrease was mainly attributable to (i) the recognition of loss on deregistration of subsidiary of approximately RMB5.1 million during the year under review; and (ii) a decrease in government grants for the year under review to approximately RMB2.9 million as compared to approximately RMB4.7 million for the corresponding period in 2021.

(Allowance)/reversal for impairment losses on financial assets, net

Allowance for impairment losses on financial assets of approximately RMB7.4 million was recognised during the year under review (for the corresponding period in 2021: reversal for impairment losses on financial assets of approximately RMB10.3 million). The allowance for impairment losses during the year under review was mainly made in respect of the long outstanding trade receivables from the Group's SMIA business segment, which was mainly caused by the prolonged late payment from the major customers and the difficulty of initiating recovery action or discussion with them as a consequence of China's highly restrictive Pandemic control measures. The reversal for impairment losses for the corresponding period in 2021 was mainly attributable to the Group's collection efforts made to recover the credit-impaired trade and other receivables which was one-off and similar scale of recovery did not recur during the year under review. The Group has been and will continue to be implementing actions to facilitate timely collection of outstanding receivables.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately 30.0% to approximately RMB17.3 million for the year under review from approximately RMB24.7 million for the corresponding period in 2021. The decrease was mainly attributable to the non-recurrence of a one-off consultancy fee incurred by the Group's SMIA business segment during the year ended 31 December 2021, as the relevant project to which the consultancy was related had been secured by the Group successfully.

General and administrative expenses

General and administrative expenses decreased by approximately 9.2% to approximately RMB55.2 million for the year under review from approximately RMB60.8 million for the corresponding period in 2021. The decrease was primarily attributable to (i) the non-recurrence of a one-off consent fee of HK$3 million incurred by the Group during the year ended 31 December 2021 for extension of the maturity date of the convertible bonds to 13 August 2022 under the Second Proposed Amendment (as defined below); (ii) the decrease in business entertainment incurred by the Group's SMIA business segment in line with the decrease in its revenue; and (iii) the decrease in depreciation of right-of-use asset.

Research and development expenses

Research and development expenses increased by approximately 13.6% to approximately RMB22.3 million for the year under review from approximately RMB19.6 million for the corresponding period in 2021. The increase was mainly attributable to increased amortization of capitalised development costs related to broadband technology development as the Group's broadband products were commercialized during the year under review.

Finance costs

Finance costs decreased by approximately 22.4% to approximately RMB7.4 million for the year under review from approximately RMB9.5 million for the corresponding period in 2021. The decrease was mainly attributable to the full redemption of the promissory notes issued by the Company to Sailen International IOT Limited as part of the consideration for the acquisition of Green Harmony in 2021, and therefore the interest expenses on promissory notes did not recur during the year under review, partially offset by the increase in interest expenses on borrowings which were mainly drawn down for refinancing the redemption of the convertible bonds and other accrued interests.

Income tax credit

Income tax credit of approximately RMB17.9 million was recorded during the year under review (for the corresponding year in 2021: income tax credit of approximately RMB6.8 million). The recognition of income tax credit was mainly attributable to the derecognition of deferred tax assets arising from tax losses and derecognition of deferred tax liabilities arising from impairment losses and amortisation of intangible assets.

Impairment of goodwill and intangible assets

In accordance with the relevant requirements under "Hong Kong Accounting Standard 36 — Impairment of Assets" and "Hong Kong Accounting Standard 38 — Intangible Assets", the Group performed impairment test with assistance of an external valuation firm for the goodwill and intangible assets arising from the acquisitions of North Mountain Information Technology Company Limited ("**NM Technology**") and Green Harmony.

After conducting impairment tests, the Group recognized:

(i) impairment loss of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2021: nil) and RMB20.7 million for the year under review (2021: nil) respectively; and

(ii) impairment losses of intangible assets arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2021: nil) and RMB46.7 million for the year under review (2021: nil) respectively.

After which, carrying amount of two cash-generating units have been reduced to recoverable amount. Please refer to note 12 to the consolidated financial statements as set out in this result announcement for further details.

During the year under review, there was a significant decrease in revenue and gross profit of the SMIA business segment as compared to the corresponding period in 2021, which was primarily attributable to the cessation of the construction projects and delay of the contracts awarded during the year. Given the financial performance of the SMIA business segment for the year ended 31 December 2022 had not achieved the 2022 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, reassessed the sale pipeline and gross profit forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run.

Loss Attributable to Equity Shareholders of the Company

As a result of the above factors and the fair value gains on financial instruments at fair value through profit or loss of approximately RMB1.4 million during the year under review, the Company recorded a loss attributable to equity shareholders of the Company for the year under review of approximately RMB118.6 million (2021: loss attributable to equity shareholders of the Company of approximately RMB55.3 million).

Liquidity and Financial Resources

During the year under review, the Group's operations were mainly financed by (i) internal resources, including but not limited to existing cash and cash equivalents, cash flow generated from operating activities; (ii) net proceeds generated from the listing of shares ("**Shares**") of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 9 June 2017; and (iii) net proceeds generated from the Subscriptions (as defined below) of new shares under general mandate completed in October 2022. The Board believes that the Group's liquidity needs will be satisfied.

As of 31 December 2022, the Group's current assets amounted to approximately RMB233.3 million (as of 31 December 2021: approximately RMB263.2 million), with cash and cash equivalents totaling approximately RMB86.7 million (as of 31 December 2021: approximately RMB91.7 million). The cash and cash equivalents of the Group are principally held in RMB, HKD and USD.

As of 31 December 2022, the Group's total interest-bearing liabilities amounted to RMB132.8 million (as of 31 December 2021: RMB133.5 million), representing convertible bonds, borrowings and lease liabilities. The Group had interest-bearing liabilities of RMB126.7 million (as of 31 December 2021: RMB121.4 million) and RMB6.1 million (as of 31 December 2021: RMB12.1 million) which will be due repayable within one year and after one year respectively with coupon rates ranging from 0% to 5% 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 62.0% as of 31 December 2022 (as of 31 December 2021: 21.6%).

Issue of convertible bonds

Pursuant to subscription agreements entered into by the Company on 31 July 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., ("**SRA**") an independent investor, on 13 August 2018 (the "**Issue Date**"). The aggregated net proceeds from the issue of the Convertible Bonds was approximately HKD146.0 million, and all such proceeds have been fully utilised by the Group. The reason for the issue of the Convertible Bonds was to raise fund to settle the consideration for the acquisition of Green Harmony. The maturity date of the Convertible Bonds has been extended for two times and the maturity date of the Convertible Bonds was on 13 August 2022. 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 "**Conversion Shares**") with an initial conversion price of HKD2.50 per Conversion Share (the "**Initial Conversion Price**") which is subject to anti-dilutive adjustments arising from such events.

On 13 August 2020, following the fulfillment of all the conditions precedent set out in the amendment agreement dated 24 June 2020, including the grant of approval by the Stock Exchange in relation to the proposed amendment to the terms and conditions of the Convertible Bonds ("**Proposed Amendment**") as set out in the instrument constituting the Convertible Bonds ("**Instrument**"), the Company executed the supplemental deed of Instrument to amend the conversion price under the Convertible Bonds from the Initial Conversion Price of HK$2.50 per Conversion Share to the adjusted conversion price of HK$0.80 per Conversion Share ("**Adjusted Conversion Price**").

On 13 August 2021, the Company and SRA entered into the second amendment and extension agreement ("**Second Amendment and Extension Agreement**"), pursuant to which, the Company and SRA conditionally agreed to further extend the Extended Maturity Date of the Convertible Bonds by 12 months from 13 August 2021 to the new maturity date of 13 August 2022 (i.e. 48 months from the Issue Date) (the "**Maturity Date**") by way of executing the second supplemental deed of Instrument ("**Second Supplemental Deed**") in connection with the second proposed amendment to the terms and conditions of the Convertible Bonds as set out in the Instrument as contemplated under the Second Amendment and Extension Agreement and the Second Supplemental Deed ("**Second Proposed Amendment**").

As at 2 September 2022, the Company has fully redeemed its Convertible Bonds at their principal amounts of HK$150,000,000 (the "**Redemption**") by refinancing through a loan from the bondholder. The interest accrued thereon from the last interest payment date up to the Maturity Date has also been fully paid.

Following the Redemption, the Convertible Bonds were cancelled in whole and the Company was discharged from all of the obligations under and in respect of the Convertible Bonds.

Please refer to the announcements of the Company dated 31 July 2018 and 13 August 2018 for further details of the Convertible Bonds; the announcements of the Company dated 24 June 2020 and 13 August 2020 for further details in relation to the Proposed Amendment; the announcements of the Company dated 13 August 2021, 19 August 2021, 3 September 2021 and 6 October 2021 for further details in relation to the Second Proposed Amendment in relation to the further extension of the maturity date of the Convertible Bonds, and the announcements of the Company dated 15 August 2022 and 2 September 2022 for further details in relation to the Redemption.

Subscriptions of new Shares under General Mandate

References are made to the announcement ("**GM Subscription Announcement**") of the Company dated 21 September 2022 in relation to the subscriptions ("**Subscriptions**") of new ordinary shares of HK$0.0001 each in the share capital of the Company under the general mandate ("**General Mandate**") to allot, issue and deal with Shares granted to the Directors by resolution of the shareholders of the Company passed at the annual general meeting of the Company held on 24 June 2022, and the announcement of the Company dated 12 October 2022 in relation to the completion of Subscriptions.

On 21 September 2022, the Company entered into subscription agreements (each a “**Subscription Agreement**”, and collectively, the “**Subscription Agreements**”)) with five subscribers (“**Subscribers**”), all being independent third parties, whereby the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue an aggregate of not more than 120,880,000 subscription Shares (“**Subscription Shares**”) at the subscription price (“**Subscription Price**”) of HK$0.18 each. The Subscribers whom entered into the Subscription Agreement with the Company were, Mr. Li Maosheng (“**Subscriber A**”), Ms. Zheng Aihong (“**Subscriber B**”), Mr. Wu Jingdong (“**Subscriber C**”), Mr. Zhao Dong (“**Subscriber D**”) and Mr. Wang Wenyuan (“**Subscriber E**”).

The Subscription Price represents a discount of 10% to the closing price of HK$0.2 per Share as quoted on the Stock Exchange on 21 September 2022, being the date of the Subscription Agreements.

Completion of the Subscriptions with Subscriber A and Subscriber C, respectively, took place on 12 October 2022 pursuant to the respective terms of the Subscription Agreements entered into with each of these Subscribers. A total of 81,180,000 Subscription Shares have been successfully allotted and issued to Subscriber A and Subscriber C at the Subscription Price under the General Mandate. 50,072,500 Subscription Shares were subscribed by Subscriber A and 31,107,500 Subscription Shares were subscribed by Subscriber C. The aggregate nominal value of the Subscription Shares subscribed by Subscriber A and C is HK$8,118.

After arm’s length negotiations between the Company and each of Subscriber B, Subscriber D and Subscriber E, on 12 October 2022, each of Subscriber B, Subscriber D and Subscriber E decided not to proceed with the Subscriptions for personal reasons. Each of the Subscription Agreements entered with Subscriber B, Subscriber D and Subscriber E lapsed in accordance with its respective terms and all parties thereto were released and discharged from their respective obligations from the relevant Subscription Agreement, and did not proceed with the completion of the subscription of a total of 34,217,500 Subscription Shares.

The Directors considered that the Subscriptions represent a good opportunity for the Company to reduce its debts without having to increase the Group‘s financing costs. The net proceeds from the Subscriptions by Subscriber A and Subscriber C, after deduction of the related expenses, are approximately HK$14,554,000, representing a net subscription price of approximately HK$0.179 per Subscription Share, which was entirely used for lowering the gearing ratio of the Group by repayment of the outstanding indebtedness during the year under review. The use of net proceeds from the Subscriptions by Subscriber A and Subscriber C were utilized in line with the intentions as disclosed in the GM Subscription Announcement.

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in HKD or USD. The fluctuation of exchange rate of the 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 2021, 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 of 31 December 2022, the Group had a total capital commitment of RMB1.8 million, contracted for but not yet incurred (as of 31 December 2021: RMB2.8 million). Such capital commitments are expected to be funded by the Group's internal resources.

Contingent Liabilities

As at 31 December 2022, the Group had no contingent liabilities (as at 31 December 2021: nil).

Charge on assets

As at 31 December 2022, the Group had no charge on assets (as at 31 December 2021: nil).

Pursuant to a repayment agreement entered into by the Company and the bondholder on 2 September 2022 for refinancing the redemption of the convertible bonds, the entire issued shares of two subsidiaries of the Company, namely Risecomm Co. Ltd. and Risecomm (HK) Technology Co. Limited, shall be pledged as security for borrowings of approximately RMB112,818,000 on or before 31 January 2023. As at the date of this announcement the relevant procedures for such share charges are still in process. Saved as disclosed, the Group had no other charge on assets as at the date of this announcement.

Significant investments

During the year under review, the Group did not hold any material investments.

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.

Prospects

In 2022, State Grid continues to commit to the application of broadband technology in the Electric Energy Data Acquisition Systems, and will shortly initiate the transition from broadband single-mode technology to broadband dual-mode technology. The Group is currently researching and developing new broadband dual-mode products, and will continue to promote and expand its PLC broadband products to more provincial network markets, thereby strengthening the competitiveness of the Group's broadband products in the domestic market. In addition, with the PRC government's promotion of smart city construction, support for energy conservation and emission reduction, and the continuous expansion of the overseas market for smart meters under the Belt and Road Initiative, the market of PLC technology is expected to maintain a good development trend in the next few years, which will expect to promote the sales of various products under the Group's AMR and other business line.

For the Group's SMIA business, the Group believes that the growth of China industrial automation market would continue to be healthy given its current relatively low penetration rate and the rising cost of labour. As petrochemical enterprises are the pioneers of the manufacturing sector in China, major market participants have started to build smart oil fields, smart pipelines and smart factories.

The Group will continue to capture 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 leveraging 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 alliances and collaborations with internationally renowned system integrators to provide existing and potential customers with its value-added 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 smart factory integrated solutions for petroleum refining and pipeline construction. At the same time, the Group will utilise its own research and development resources to cooperate with external companies to further develop its own intellectual property rights on the smart factory application interface and visual integrated management platform as well as the integration of the online and core applications on 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 Part 2 of Appendix 14 to the Listing Rules. The Board has reviewed the Company's corporate governance practices.

Save as the deviation from the code provision C.1.6 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision C.1.6 of the CG Code stipulates that independent non-executive directors and non-executive directors should attend annual general meetings. Two independent non-executive Directors, Mr. Ong King Keung and Mr. Zou Heqiang, did not attend the annual general meeting held on 24 June 2022, due to other business commitments. Although such independent non-executive Directors did not attend the annual general meeting, however, Ms. Lo Wan Man, an independent non-executive Director and a member of each of the audit committee, nomination committee, and remuneration committee, attended that meeting to answer questions from shareholders of the Company.

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.

Closure of Register of Members for the 2023 AGM

The register of members of the Company will be closed from Friday, 16 June 2023 to Wednesday, 21 June 2023 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 21 June 2023 (the "**2023 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2023 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 15 June 2023.

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

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

There is no material subsequent event undertaken by the Group after 31 December 2022 and up to the date of this announcement.

Use of Proceeds

(i) Use of proceeds from Initial Global Offering

References are made to the announcements of the Company dated 8 June 2017, 21 June 2017, 3 July 2019 and 29 March 2022. 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 (the "**IPO Prospectus**")) was approximately HK$158.2 million. Proposed application of net proceeds as stated in the IPO Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the IPO Prospectus.

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

On 29 March 2022, the Board resolved to further change the use of the unutilised net proceeds (the "**2022 Re-allocation**"). For details of the 2022 Re-allocation, please refer to the announcement of the Company dated 29 March 2022.

The following table presented the utilisation of the net proceeds during the year under review after the 2019 Re-allocation made as of 3 July 2019 and the 2022 Re-allocation made as of 29 March 2022:

	Original planned use of net proceeds as stated in the IPO Prospectus	2019 Re-allocation on 3 July 2019	2022 Re-allocation on 29 March 2022	Amount utilised as at 31 December 2022	Unutilised net proceeds as at 31 December 2022
	HKD' million	*HKD' million*	*HKD' million*	*HKD' million*	*HKD' million*
Research and development of the PLC technology	95.7	(37.8)	–	55.8	2.1
Sales and marketing	32.0	(6.9)	–	13.3	11.8
Repayment of an entrusted bank loan	14.7	–	–	14.7	–
Working capital and general corporate purposes	15.8	–	14.0	29.8	–
Repayment of interest expenses	–	44.7	(14.0)	30.7	–
	158.2	–	–	144.3	13.9

As of the date of this announcement, the Company does not anticipate any change to the above plan of use of proceeds. The remaining unutilised net proceeds as at 31 December 2022 are expected to be fully utilised on or before 31 December 2024.

(iii) Use of proceeds from the Subscriptions

References are made to the GM Subscription Announcement and the announcement of the Company dated 12 October 2022 in relation to the completion of Subscriptions. The aggregated net proceeds derived from the Subscriptions were approximately HKD14.5 million.

During the year under review, the net proceeds had been fully applied for lowering the gearing ratio of the Group by repayment of the outstanding indebtedness in accordance with the intentions as disclosed in the GM Subscription Announcement.

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 31 December 2022, the Group had an aggregate of 151 employees (as at 31 December 2021: 163 employees). During the year under review, staff costs, including Directors' remuneration, was approximately RMB38.9 million (2021: approximately RMB36.3 million). 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 ANNUAL FINANCIAL RESULTS

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.

The Audit Committee has discussed with the management of the Group and reviewed the audited annual financial results of the Group for the year under review, including the accounting principles and practices adopted by the Group, and discussed financial related matters. The consolidated financial statements of the Group for the year under review have been audited by the auditor of the Group, RSM Hong Kong. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year under review. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at **www.hkex.com.hk** and on the website of the Company at **www.risecomm.com.cn**. The annual report for the year under review containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

By order of the Board
Risecomm Group Holdings Limited
Yue Jingxing
Chairman and Executive Director

Hong Kong, 29 March 2023

As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Lau Wai Leung, Alfred and Mr. Jiang Feng, the non-executive Directors are Mr. Yu Lu and Mr. Ding Zhigang, and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.