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 INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB89.6 million (corresponding period in 2018: approximately RMB174.4 million), representing an decrease of approximately 48.6%.
- Revenue from AMR and other business segment decreased by approximately 62.1% to approximately RMB66.1 million as compared with the corresponding period in 2018.
- Revenue from SMIA business segment was approximately RMB23.5 million (corresponding period in 2018: N/A).
- Gross profit decreased by approximately 56.0% to approximately RMB20.8 million as compared with the corresponding period in 2018. Gross profit margin decreased from approximately 27.1% for the corresponding period to 23.2% for the Period.
- Net loss for the Period attributable to equity shareholders of the Company increased from approximately RMB9.2million for the corresponding period to approximately RMB40.8 million for the Period.
- Basic loss per share for the Period amounted to approximately RMB4.94 cents (corresponding period in 2018: basis loss per share of approximately RMB1.12 cents).
- The Board did not recommend the payment of an interim dividend for the six months ended June 30, 2019.

The board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**") announces herewith the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2019 (the "**Period**") under review, together with the relevant unaudited financial data for the corresponding period in 2018 or other dates/periods as set out in this announcement for comparative purposes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

		Six months ended June 30,	
		2019	2018
	Note	***RMB'000***	*RMB'000* *(Note)*
Revenue	*4*	**89,621**	174,354
Cost of sales		**(68,824)**	(127,120)
Gross profit		**20,797**	47,234
Other income	*5*	**12,109**	7,935
Sales and marketing expenses		**(18,110)**	(25,578)
General and administrative expenses		**(45,393)**	(26,789)
Research and development expenses		**(15,910)**	(17,682)
Loss from operations		**(46,507)**	(14,880)
Finance costs	*6(a)*	**(401)**	(61)
Share of profit/(loss) of associate		**9**	(66)
Fair value gains on financial instruments at fair value	*6(b)*	**7,138**	320
Loss before taxation	*6*	**(39,761)**	(14,687)
Income tax (expense)/credit	*7*	**(1,040)**	5,492
Loss for the period		**(40,801)**	(9,195)
Attributable to:			
— Equity shareholders of the Company		**(40,801)**	(9,215)
— Non-controlling interests		**–**	20
Loss for the period		**(40,801)**	(9,195)
Loss per share	*8*		
Basic (RMB cents)		**(4.94)**	(1.12)
Diluted (RMB cents)		**(5.55)**	(1.12)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Loss for the period	**(40,801)**	(9,195)
Other comprehensive income for the period (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	**138**	(1,264)
Total comprehensive income for the period	**(40,663)**	(10,459)
Attributable to:		
— Equity shareholders of the Company	**(40,663)**	(10,479)
— Non-controlling interests	**–**	20
Total comprehensive income for the period	**(40,663)**	(10,459)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At June 30, 2019 — unaudited
(Expressed in Renminbi)

	Note	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment		**29,353**	30,877
Right-of-use assets	*3(c), 9*	**10,112**	–
Intangible assets	*10*	**197,689**	215,363
Goodwill	*11*	**215,147**	215,147
Interest in associate		**455**	446
Deferred tax assets		**16,024**	19,813
		468,780	481,646
Current assets			
Inventories	*12*	**29,267**	33,225
Contract costs		**3,729**	7,548
Trade and other receivables	*13*	**175,747**	259,253
Restricted bank deposits		**227**	148
Financial investments at fair value through profit or loss		**–**	10,000
Cash and cash equivalents		**160,292**	267,037
		369,262	577,211
Current liabilities			
Trade and other payables	*14*	**55,448**	124,006
Contract liabilities		**18,833**	23,700
Lease liabilities	*3(c)*	**5,191**	–
Acquisition consideration payables	*15*	**–**	211,280
Income tax payable		**9,331**	12,551
		88,803	371,537
Net current assets		**280,459**	205,674
Total assets less current liabilities		**749,239**	687,320

	Note	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000 (Note)
Non-current liabilities			
Acquisition consideration payables	*15*	**208,151**	105,255
Lease liabilities	*3(c)*	**5,039**	–
Convertible bonds	*16*	**109,503**	120,502
Deferred tax liabilities		**49,778**	54,043
Deferred income		**5,847**	6,734
		378,318	286,534
Net assets		**370,921**	400,786
Capital and reserves			
Share capital		**73**	71
Reserves		**370,848**	400,715
Total equity		**370,921**	400,786

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATE INFORMATION

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 Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 9, 2017.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised by the Board for issue on August 29, 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRSs, 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 in this interim financial report. The Group has not adopted 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 recognise 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.

The Group has adopted HKFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised 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) Changes in the accounting policies

(i) 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.

(ii) Lessee accounting

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 capitalise 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. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

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 recognised as at January 1, 2019:

	January 1, 2019
	RMB'000
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 recognised at January 1, 2019	12,606

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised 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	**Capitalisation of operating lease contracts**	**Carrying amount at January 1, 2019**
	RMB'000	*RMB'000*	*RMB'000*
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**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At June 30, 2019	At January 1, 2019
	RMB'000	*RMB'000*
Properties leased for own use, carried at depreciated cost	**10,112**	12,606

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At June 30, 2019		At January 1, 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**5,191**	**5,325**	5,207	5,341
After 1 year but within 2 years	**4,474**	**4,868**	4,447	5,075
After 2 years but within 5 years	**565**	**570**	2,952	2,997
	10,230	**10,763**	12,606	13,413
Less: total future interest expenses		**(533)**		(807)
Present value of lease liabilities		**10,230**		12,606

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at January 1, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial results, segment results and cash flows for the six months ended June 30, 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 had this superseded standard been applied to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	Six months ended June 30, 2019				2018
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(note 1)* **(C)**	**Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	*RMB'000*	*RMB'000*	**RMB'000**	*RMB'000*
Financial result for the six months ended June 30, 2019 impacted by the adoption of HKFRS 16:					
Loss from operations	**(46,507)**	**2,515**	**(2,673)**	**(46,665)**	(14,880)
Finance costs	**(401)**	**276**	**–**	**(125)**	(61)
Share of profits/(losses) of associates	**9**	**–**	**–**	**9**	(66)
Fair value gains on financial instruments at fair value	**7,138**	**–**	**–**	**7,138**	320
Loss before taxation	**(39,761)**	**2,791**	**(2,673)**	**(39,643)**	(14,687)
Loss for the period	**(40,801)**	**2,791**	**(2,673)**	**(40,683)**	(9,195)
Reportable segment (loss)/profit for the six months ended June 30, 2019 (note 4(b)) impacted by the adoption of HKFRS 16:					
— AMR and other business	**(15,286)**	**1,032**	**(1,093)**	**(15,347)**	3,974
— SMIA business	**2,063**	**–**	**–**	**2,063**	–
Total	**(13,223)**	**1,032**	**(1,093)**	**(13,284)**	3,974

	Six months ended June 30, 2019			2018
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17** *(notes 1 & 2)* **(B)**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)**	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash used in operations	**(5,352)**	**(2,673)**	**(8,025)**	(14,999)
Net cash used in operating activities	**(10,229)**	**(2,673)**	**(12,902)**	(17,267)
Capital element of lease rentals paid	**(2,397)**	**2,397**	**–**	–
Interest element of lease rentals paid	**(276)**	**276**	**–**	–
Net cash used in financing activities	**(5,288)**	**2,673**	**(2,615)**	–

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, had HKAS 17 still been applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, had HKAS 17 still been applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as had HKAS 17 still been applied.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of 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 automated 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 ("**SMIA**") system applied in the area of maintenance and safety integrity system in the petroleum and petrochemicals industry.

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended June 30,	
	2019	2018
	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 of service lines		
AMR business		
— PLC Integrated circuits ("**ICs**")	**14,878**	27,645
— PLC modules	**15,197**	53,560
— Other AMR products	**29,255**	82,950
— AMR maintenance services	**6,771**	10,199
Sub-total of AMR and other business	**66,101**	174,354
SMIA business		
— Software license	**14,190**	–
— Production safety products	**3,035**	–
Sub-total of SMIA business	**17,225**	–
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products of service lines SMIA business		
— Post-contract customer support service	**6,295**	–
Sub-total of SMIA business	**6,295**	–
Total	**89,621**	174,354

(b) Segment reporting

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 presented two reportable segments, namely AMR business and Smart energy management business, in the consolidated financial statements for six months ended June 30, 2018.

The Group has presented the following two reportable segments. Comparative information has been restated to conform with the current year's presentation.

- 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 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.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment based on revenue less cost of sales, sales and marketing expenses, and research and development expenses. General and administrative expenses are not allocated to segments. In the previous period, research and development expenses and general and administrative expenses were not allocated to segments.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance during the period is set out as below:

	Six months ended June 30, 2019		
	AMR and other business	**SMIA business**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Reportable segment revenue	**66,101**	**23,520**	**89,621**
Reportable segment cost of sales	**(53,348)**	**(15,476)**	**(68,824)**
Reportable segment sales and marketing expenses	**(16,045)**	**(2,065)**	**(18,110)**
Reportable segment research and development expenses	**(11,994)**	**(3,916)**	**(15,910)**
Reportable segment (loss)/profit	**(15,286)**	**2,063**	**(13,223)**

	Six months ended June 30, 2018 *(Note)*		
	AMR and other business	SMIA business	Total
	RMB'000	*RMB'000*	*RMB'000*
Reportable segment revenue	174,354	–	174,354
Reportable segment cost of sales	(127,120)	–	(127,120)
Reportable segment sales and marketing expenses	(25,578)	–	(25,578)
Reportable segment research and development expenses	(17,682)	–	(17,682)
Reportable segment profit	3,974	–	3,974

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(ii) *Reconciliation of reportable segment (loss)/profit to the Group's loss before taxation*

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Reportable segment (loss)/profit	**(13,223)**	3,974
Other income	**12,109**	7,935
General and administrative expenses	**(45,393)**	(26,789)
Finance costs	**(401)**	(61)
Share of profit/(loss) of associate	**9**	(66)
Fair value gains on financial instruments at fair value	**7,138**	320
Loss before taxation	**(39,761)**	(14,687)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(iii) *Information about geographical area*

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets. For the six months ended June 30, 2019 and 2018, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were located in the PRC.

5 OTHER INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
Interest income from bank deposits	**1,020**	323
Government grants		
— Unconditional subsidies *(note (a))*	**7,355**	4,769
— Conditional subsidies	**888**	1,485
Net exchange gain	**710**	1,284
Others	**2,136**	74
	12,109	7,935

(a) Government grants

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

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended June 30, 2019 RMB'000	2018 RMB'000 (Note)
Interest expense on promissory notes	**125**	61
Interest expense on lease liabilities	**276**	–
	401	61

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

	Six months ended June 30, 2019 RMB'000	2018 RMB'000
Gain on final settlement of contingent share consideration *(note 15(a)(ii))*	**(14,521)**	(320)
Change in fair value of contingent consideration notes payable *(note 15(b)(i))*	**15,842**	–
Change in fair value of convertible bonds *(note 16)*	**(8,360)**	–
Change in fair value of financial investments at fair value through profit or loss	**(99)**	–
	(7,138)	(320)

(c) Other items

	Six months ended June 30, 2019 RMB'000	2018 RMB'000 (Note)
Cost of inventories	**56,199**	127,531
Cost of software license sold	**8,229**	–
Cost of post-contract customer support service	**4,838**	–
Depreciation and amortisation		
— intangible assets arising from the acquisition	**17,060**	890
— right-of-use assets	**2,515**	–
— owned property, plant and equipment	**1,956**	3,796
Impairment losses of trade receivables	**8,148**	2,783
Operating lease charges	**3,255**	4,018
Product warranty costs	**561**	1,309

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

7 INCOME TAX EXPENSE/(CREDIT)

	Six months ended June 30, 2019 RMB'000	2018 RMB'000
Current tax:		
Provision for current income tax for the period	**1,513**	1,493
Deferred tax:		
Origination and reversal of temporary differences	**(473)**	(6,985)
	1,040	(5,492)

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss earnings per share is based on loss attributable to ordinary equity shareholders of the Company of RMB40,801,000 (six months ended June 30, 2018: loss attributable to ordinary equity shareholders of the Company of RMB9,215,000) and the weighted average of 825,100,010 ordinary shares in issue during the six months ended June 30, 2019 (six months ended June 30, 2018: 823,376,000 shares), calculated as follows.

(i) Weighted average number of ordinary shares

	Six months ended June 30, 2019	2018
Shares issued on January 1,	**811,247,421**	810,877,303
Effect of equity-settled share options exercised	**11,436,824**	–
Effect of vested equity-settled share options	**863,587**	12,498,697
Effect of shares issued as consideration for acquisition of NM Technology	**1,552,178**	–
Weighted average number of shares	**825,100,010**	823,376,000

(b) Diluted loss per share

The calculation of diluted loss per share is based on loss attributable to ordinary equity shareholders of the Company of RMB49,161,000 (six months ended June 30, 2018: loss attributable to ordinary equity shareholders of the Company of RMB9,215,000) and the weighted average of 885,100,010 shares for the six months ended June 30, 2019 (six months ended June 30, 2018: 823,376,000 shares), calculated as follows:

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

	Six months ended June 30, 2019 RMB'000	2018 RMB'000
Loss attributable to ordinary equity shareholders (basic)	**(40,801)**	(9,215)
After tax effect of gain on fair value changes of convertible bonds *(note 6(b))*	**(8,360)**	–
Loss attributable to ordinary equity shareholders (diluted)	**(49,161)**	(9,215)

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

	Six months ended June 30, **2019**	2018
Weighted average number of ordinary shares at June 30 (basic)	**825,100,010**	823,376,000
Effect of conversion of convertible bonds	**60,000,000**	–
Weighted average number of ordinary shares at June 30 (diluted)	**885,100,010**	823,376,000

9 RIGHT-OF-USE ASSETS

As discussed in note 3, the Group has adopted HKFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended June 30, 2019, the Group had not entered into any new significant lease agreement.

10 INTANGIBLE ASSETS

	Software *RMB'000*	**Capitalised development costs** *RMB'000*	**Non-compete undertakings** *RMB'000*	**Customer relationship** *RMB'000*	**Unfulfilled contracts** *RMB'000*	**Total** *RMB'000*
Cost:						
At January 1, 2018	10,753	7,287	–	–		18,040
Acquisition of subsidiaries *(Note 15)*	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	52	189	–	–	–	241
At June 30, 2019	10,959	9,512	99,380	100,147	22,264	242,262
Accumulated depreciation:						
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 period	(855)	–	(6,326)	(7,363)	(3,371)	(17,915)
At June 30, 2019	(7,090)	–	(12,201)	(13,312)	(11,970)	(44,573)
Net book value:						
At June 30, 2019	3,869	9,512	87,179	86,835	10,294	197,689
At December 31, 2018	4,672	9,323	93,505	94,198	13,665	215,363

11 GOODWILL

	2019	2018
	RMB'000	*RMB'000*
Balance at January 1	**215,147**	–
Additions	**–**	215,147
Balance at June 30/December 31	**215,147**	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:

	At June 30, 2019	At December 31, 2018
	RMB'000	*RMB'000*
AMR and other business	**37,936**	37,936
SMIA business	**177,211**	177,211
	215,147	215,147

Goodwill of AMR and other business

As at June 30, 2019, the Directors determined an impairment indictor on goodwill of AMR and other business unit arising from an unexpected further delay in debut of the Group's PLC based broadband AMR product. This may lead to potential hamper on the financial performance of the Group's AMR and other business in the short run.

As at June 30, 2019, the Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. The recoverable amount of the CGU has been determined based on value-in-use calculation. This calculation uses cash flow projections based on revised financial budgets approved by the Directors covering a five-year period as at June 30, 2019.

Key changes in certain assumptions and estimates involved for the preparation of the revised five-year period financial budget, the cash flow projections for the period covered by the approved budget and the estimated terminal value at the end of the budget period, where applicable, include:

(i) Reduction in the expected growth in revenue of the Group from State Grid by reducing total forecasted revenue of the Group for the years ending December 31, 2019 to 2023;

(ii) Reduction of the Group's expected market share in the PLC market under State Grid;

(iii) Change in general operating costs which aligns with the decrease in forecasted revenue;

(iv) Change in working capital which aligns with the decrease in forecasted revenue; and

(v) Change in discount rate based on current underlying market data, etc.

As at June 30, 2019, the Directors determined no impairment charge on the goodwill of AMR and other business was resulted (December 31, 2018: Nil).

The Directors further performed a sensitivity analysis* on the possible changes of the key assumptions including a reasonable change on the revenue, gross profit margins and discount rates; and determined that no key assumption was unreasonably optimistic.

* The sensitivity analysis is based on a change in the relevant assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Goodwill of SMIA business

The Directors performed an interim assessment to assess whether the original financial budget approved for the year ending December 31, 2019 remained appropriate as at June 30, 2019. As at 30 June 2019, the Group also has engaged an independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit and the Directors determined that no impairment was resulted (December 31, 2018: Nil).

12 INVENTORIES

	At June 30, 2019 *RMB'000*	At December 31, 2018 *RMB'000*
Raw materials	**16,360**	16,925
Work in progress	**2,860**	3,418
Finished goods	**30,390**	26,897
	49,610	47,240
Provision for diminution in value of inventories	**(20,343)**	(14,015)
	29,267	33,225

13 TRADE AND OTHER RECEIVABLES

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

	At June 30, 2019 *RMB'000*	At December 31, 2018 *RMB'000*
Within 6 months	**38,486**	154,404
6 to 12 months	**62,548**	26,066
Over 12 months	**21,016**	25,955
Trade receivables, net of loss allowance for doubtful debts	**122,050**	206,425
Bills receivables	**15,640**	15,342
Deposits and prepayments	**23,626**	27,735
Income tax recoverable	**226**	85
Other receivables	**14,205**	9,666
Total trade and other receivables	**175,747**	259,253

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on invoice date, is as follows:

	At June 30, 2019 *RMB'000*	At December 31, 2018 *RMB'000*
Within 3 months	**9,551**	70,249
After 3 months but within 6 months	**3,648**	8,825
After 6 months but within 1 year	**24,640**	7,798
Over 1 year but within 2 years	**6,205**	4,922
Total trade payables	**44,044**	91,794
Product warranty provision	**1,617**	3,474
Other payables and accruals	**9,787**	28,738
Total trade and other payables	**55,448**	124,006

15 ACQUISITION CONSIDERATION PAYABLES

	Note	**At June 30, 2019** *RMB'000*	At December 31, 2018 *RMB'000*
Acquisition of North Mountain Information Technology Company Limited ("**NM Technology**")	*a*		
— Promissory note payable		–	8,875
— Contingent share consideration payable		–	23,325
Acquisition of Green Harmony			
— Contingent consideration notes payable	*b(i)*	**208,151**	284,335
		208,151	316,535
Representing:			
— Amounts payable within 1 year		–	211,280
— Amounts payable after 1 year but within 2 years	*b(ii)*	**208,151**	105,255
		208,151	316,535

(a) Acquisition of NM Technology

	2019	2018
	RMB'000	*RMB'000*
Balance at January 1	**32,200**	–
Acquisition of a subsidiary	**–**	55,191
Payment of the cash consideration	**–**	(15,000)
Payment of the Promissory note (i)	**(9,000)**	–
Interest expense on Promissory note (i)	**125**	250
Gain on fair value changes recognised in the profit or loss (ii)	**(14,521)**	(8,241)
Issue of shares upon settlement of contingent consideration (ii)	**(8,804)**	–
Balance at June 30/December 31	**–**	32,200

(i) Promissory note payable

On April 30, 2018, the Group issued an unsecured, non-interest bearing promissory note with payment due date of 12 months from April 30, 2018 (the "**NM Acquisition Date**"). The face value and fair value of the promissory note at the NM Acquisition Date was RMB9,000,000 and RMB8,625,000, respectively. The promissory note is measured at amortised cost.

On May 21, 2019, the Group paid the promissory note in cash of RMB9,000,000 to the vendor of NM Technology and a finance cost of RMB125,000 was recognised in profit or loss for the current period accordingly.

(ii) Contingent share consideration payable

The decrease in the balance of contingent share consideration payables during the six months ended June 30, 2019 was attributable to the issuance of 16,343,826 ordinary shares to the vendor of NM Technology as the final settlement payment of the consideration according to the sales and purchase agreement at a fair value of RMB8,804,000 and RMB14,521,000 was recorded as gain on final settlement of contingent share consideration.

(b) Acquisition of Green Harmony

	2019	2018
	RMB'000	*RMB'000*
Balance at January 1	**284,335**	–
Acquisition of a subsidiary	**–**	363,675
Payment of cash consideration	**–**	(87,720)
Fair value changes recognised in the profit or loss (i)	**15,842**	8,380
Partially cash redemption of the "First Promissory note" (ii)	**(92,026)**	–
Balance at June 30/December 31	**208,151**	284,335

(i) The fair value of the contingent consideration notes payable had decreased by RMB15,842,000 from the interest winding-up.

(ii) According to the sales and purchase agreement (the "**SPA**"), the Group was required to issue an unsecured promissory note (the "**First Promissory Note**") with a coupon interest rate of 8% per annum and payment due date of 12 months from the August 15, 2018 (the "**GH Acquisition Date**"). The face value of the "First Promissory Note" on the GH Acquisition Date is HKD200,000,000. During the six months ended June 30, 2019, the Group partially redeemed the first HK$100,000,000 principal of the "First Promissory Note" by cash. On March 15, 2019, the payment due date of the remaining HK$100,000,000 principal of the "First Promissory Note" was extended to August 14, 2020 and was reclassed to non-current liabilities.

16 CONVERTIBLE BONDS

	2019	2018
	RMB'000	*RMB'000*
Balance as at January 1	**120,502**	–
Fair value of convertible bonds issued		131,130
Payment for interest of convertible bonds	**(2,643)**	–
Re-measurement on convertible bonds:		
— Exchange difference	**4**	50
— Fair value gain	**(8,360)**	(10,678)
Balance at June 30/December 31	**109,503**	120,502

The Group's convertible bond is valued by an independent external valuation firm, by using the Income Approach, with the following key assumptions:

	At issue date	**At June 30, 2019**	At December 31, 2018
Discount rate	18.40%	**15.20%**	18.28%
Votality	57.28	**47.27**	45.47
Dividend yield	0.95%	**1.22%**	1.03%

17 CAPITAL AND RESERVES

Dividends

The Board of Directors did not recommend the payment of an interim dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

18 RELATED PARTY TRANSACTIONS

	Six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
Recurring transactions:		
Properties premises rental expenses paid to Wang Shiguang, a director of the Company	**724**	724

19 COMPARATIVE FIGURES

The Group has adopted HKFRS 16 at January 1, 2019. Under the modified retrospective approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

With the continuous construction and ongoing improvement on the Strong Smart Grid (堅強智能電網) and the introduction of the concept of "Ubiquitous Power Internet Of Things" (泛在電力物聯網) by State Grid Corporation of China ("**State Grid**"), State Grid formally adopted a new unified industry standard (the "**New Standard**") for broadband 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**"). Due to the continuous improvements made on the unified industry standard, a temporary slow-down in the procurement of smart meters conducted by State Grid was resulted and this hampered the overall industry during 2017 and 2018, notwithstanding an increase in the bidding volume of State Grid's centralised biddings on smart meters and other terminals to approximately 52.8 million units in 2018 (2017: 45.6 million units). The market expected mass procurement of the broadband PLC products by State Grid shall commence in 2019.

In the Group's AMR and other business segment, the competition landscape has been changing as 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 under current Sino-American trade tension. Therefore, given the intense PLC market competition, it is foreseeable that a 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 strong and promising. The increase in market competition may 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 Period under review, the Group's 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 Group to explore in various aspects in the smart manufacturing area, contributing a positive benefit to the Group's operations.

Business Review

During the Period 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 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 pioneered in 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, upon the acquisition of Green Harmony in August 2018, the Group expanded its business and engaged 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 Period under review, the Group recorded revenue of approximately RMB89.6 million (for the corresponding period in 2018: approximately RMB174.4 million), representing a decrease of 48.6%.

The Group's AMR and other business segment recorded a revenue of approximately RMB66.1 million (for the corresponding period in 2018: approximately RMB174.4 million), representing a decrease of approximately 62.1%. Revenue from AMR and other business segment for the Period under review accounted for approximately 73.8% (for the corresponding period in 2018: 100.0%) of the Group's total revenue. A significant decrease in revenue from AMR and other business segment for the Period under review was mainly due to a significant decrease in sales of AMR products to customers under State Grid during the Period under review as compared to that of the corresponding period in 2018 which was attributable to: (a) a decrease in demand for the Group's narrowband AMR products by State Grid as well as (b) an unexpected further delay in debut of the Group's PLC based broadband AMR product. Such unexpected further delay was a result of the uncertainty of the testing and processing time required for the final approval conducted by the State Grid on the Group's PLC based broadband AMR product, of which it takes an average of three to six months' time, but may vary case by case. Based on the Directors' best estimate, the Group's PLC based broadband AMR product may pass the final approval process in the second half of 2019 and that the Directors expect an official launch of these products in the State Grid market by the end of 2019.

Should the Group's PLC based broadband AMR product not pass through the final approval process run by the State Grid in the year 2019, the Group may not be able to catch up the expected mass procurement of PLC based broadband AMR products from the upgrade of AMR system conducted by the State Grid in year 2019. If this happens, the Group may immediately lose a significant portion of market share and thus, this will significantly affect the Group's business and operation strategy as well as the financial performance of the AMR and other business of the Group in the short and long run and that a significant impairment of the Goodwill and other intangible assets associated with the AMR and other business may be required.

During the Period under review, the Group's SMIA business segment recorded a revenue of approximately RMB23.5 million (for the corresponding period in 2018: N/A) which accounted for approximately 26.2% (for the corresponding period in 2018: N/A) of the Group's total revenue. As of June 30, 2019, the Group's SMIA business secured backlog contracts with aggregated outstanding sales value of not less than RMB200 million in relation to sales of production safety equipment and the provision of a series of design and engineering software for establishing equipment management system and industrial internet of things, as well as the provision of maintenance services for such software. The duration of revenue recognition of the backlog contracts ranged from one year to five years.

Due to a significant decrease in the Group's revenue during the Period under review, the Group experienced a significant increase in loss attributable to the equity shareholders of the Company from approximately RMB9.2 million in the corresponding period in 2018 to approximately RMB40.8 million for the Period under review.

The significant increase in loss attributable to the equity shareholders of the Company, apart from the direct effect of significant decrease in revenue from the AMR and other business segment, was then mainly attributable to a significant increase in general and administrative expenses for the Period under review as compared to that of the corresponding period in 2018 which was primarily attributable to (a) significant charge for the amortisation of intangible assets arising from the acquisition of Green Harmony where the Group did not incur respective amortisation expenses for the corresponding period in 2018, and; (b) an increase in impairment loss on trade receivables which were long aged and considered impaired.

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 of June 30, 2019, the Group's PLC based broadband AMR product is under the final testing and approval stage run by the respective departments of State Grid for approving the design and development of the Group's broadband system-on-chip ICs and related AMR products. The testing and processing time for the final approval run by the State Grid takes an average of three to six months' time, but may vary case by case. As of the date of this announcement, the Group had not yet received confirmation from the respective department of State Grid regarding passing the final approval process.

During the Period under review, the Group also expanded the technology development of the SMIA business through cooperation with a professional software development company to develop an application program interface which aimed to provide an integrated solution for a visual integrated management platform used in the intelligent factory.

As of June 30, 2019, the research and development team of the Group consisted of 86 employees (as of December 31, 2018: 101 employees), representing approximately 33% (as of 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 of June 30, 2019, the Group had successfully developed a significant intellectual property portfolio, comprising 16 patents, 104 computer software copyrights and 8 IC layout designs registered, with 9 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development of the PLC technology and MSI for the petroleum and petrochemicals industry.

Financial Review

Revenue

Revenue decreased from approximately RMB174.4 million for the corresponding period in 2018 to approximately RMB89.6 million for the Period under review, or by approximately 48.6%.

Revenue derived from AMR and other business segment of the Group for Period under review amounted to approximately RMB66.1 million (for the corresponding period in 2018: approximately RMB174.4 million). The significant decrease in revenue from AMR and other business segment was primarily attributable to a significant decrease in revenue from sales of AMR products to customers under the centralised biddings conducted by State Grid for Period under review as compared to that of the corresponding period in 2018. The decrease in revenue derived from State Grid was due to (a) a significant decrease in demand for the Group's PLC based narrowband AMR products under State Grid due to the deployment of upgraded AMR system by State Grid; and, (b) an unexpected further delay in debut of the Group's PLC based broadband AMR products, as mentioned above in the "Business Review". Further, during the Period under review, the Group strategically reduced the scale of certain trading sales and local biddings in the State Grid and China Southern Power Grid Co., Ltd. ("**Southern Grid**") as compared to that of the corresponding period in 2018 after reviewing the current working capital structure and the short term needs of financial resources.

Revenue derived from SMIA business segment of the Group for Period under review amounted to approximately RMB23.5 million (for the corresponding period in 2018: N/A).

Gross profit

Gross profit decreased by approximately 56.0% to approximately RMB20.8 million for the Period under review from approximately RMB47.2 million for the corresponding period in 2018.

Gross profit margin was approximately 23.2% for the Period under review and has decreased from approximately 27.1% for the corresponding period in 2018, representing a decrease of gross profit margin by 3.9 percentage points. The reason for decrease in gross profit margin was attributable to a significant decrease in revenue from sale of PLC products to customers under State Grid centralised biddings (which earned a relatively higher gross profit margin in general) during the period under review as compared to that of the corresponding period.

Other income

Other income increased by approximately 52.6% to approximately RMB12.1 million for the Period under review from approximately RMB7.9 million for the corresponding period in 2018. The increase was mainly attributable to an increase in government grants for the Period under review to approximately RMB8.2 million as compared to approximately RMB6.3 million for the corresponding period in 2018.

Sales and marketing expenses

Sales and marketing expenses significantly decreased by approximately 29.2% to approximately RMB18.1 million for the Period under review from approximately RMB25.6 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 and marketing and travelling expenses were resulted for the Period under review.

General and administrative expenses

General and administrative expenses significantly increased by approximately 69.4% to approximately RMB45.4 million for the Period under review from approximately RMB26.8 million for the corresponding period in 2018. This significant increase was primarily attributable to (i) an increase in amortisation expenses and (ii) an increase in impairment loss on trade receivables.

(i) Amortisation expenses for the Period under review were incurred largely on the amortisation of intangible assets arising from the acquisition of Green Harmony by the Group in August 2018 of approximately RMB14.4 million where the Group did not incur respective amortisation expenses for the corresponding period in 2018.

(ii) Impairment loss of approximately RMB8.1 million (for the corresponding period in 2018: approximately RMB2.8 million) on trade receivables mainly from the customers under AMR and other business segment (which were long aged and considered impaired) was incurred for the Period under review.

Research and development expenses

Research and development expenses decreased by approximately 10.0% to approximately RMB15.9 million for the Period under review from approximately RMB17.7 million for the corresponding period in 2018. The decrease was mainly attributable to a decrease in staff costs incurred during the Period under review since the headcount of Group's research and development team reduced to 86 employees as of June 30, 2019 (December 31, 2018: 101 employees). During the Period 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 Period under review, the Group recorded fair value gains on financial instruments at fair value of approximately RMB7.1 million (for the corresponding period in 2018: approximately RMB0.3 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 (expenses)/credit

Income tax expenses of approximately RMB1.0 million were recorded during the Period under review while income tax credit of approximately RMB5.5 million was recorded for the corresponding period in 2018. A one-off Income tax credit of approximately RMB4.8 million was recorded for the corresponding period in 2018 primarily attributable to a change in the tax rate used to recognise deferred tax assets and liabilities from 15% to 25%. The Group continued to use the tax rate of 25% for recognition of respective deferred tax assets and liabilities during the Period under review and therefore no such income tax credit was recorded during the Period under review.

Loss 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 Period under review of approximately RMB40.8 million (for the corresponding period in 2018: loss attributable to equity shareholders of the Company: approximately RMB9.2 million).

Goodwill

As of June 30, 2019, the Group's goodwill amounted to approximately RMB215.1 million (December 31, 2018: approximately RMB215.1 million) of which approximately RMB37.9 million and RMB177.2 million (December 31, 2018: approximately RMB37.9 million and RMB177.2 million) is allocated to the Group's cash-generating units (the "**CGU**") of AMR and other business segment and the SMIA business segment, respectively. The Company's accounting policy is to state goodwill at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually. However, the Directors review internal and external information at the end of each reporting period to identify indications that goodwill may be impaired.

Goodwill of AMR and other business

As mentioned above in the "Business review", the Group experienced an unexpected further delay in debut of the Group's PLC based broadband AMR product as of June 30, 2019 as compared to the original timetable expected by the Directors as of December 31, 2018 given the testing and processing time for the final approval run by the State Grid may take longer than expected. This has postponed the Group's participation in certain centralised biddings to be conducted by State Grid as well as certain local biddings in 2019 and hence may lead to a potential loss of market share which may hamper the financial performance of the Group's AMR and other business in the short run. As a result, the Directors determined that such unexpected further delay may give rise to an indicator that the value of the goodwill of the AMR and other business (CGU) could be impaired.

The Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. In assessing whether the goodwill has suffered any impairment, the carrying value of the CGU to which goodwill is allocated is compared with its recoverable amount, which is the higher of the asset's fair value less costs to dispose and value in use. The recoverable amounts are determined by utilising cash flow projections based on the latest approved financial budgets for 5 years discounted to present value.

The revised recoverable amount of the CGU of AMR and other business was calculated based on the revised cash flow projection as at June 30, 2019. The revised cash flow projection was based on the revised 5-year financial budget approved by the Directors and had been updated to incorporate assumptions and potential financial impact of the abovementioned further delay, and a revised discounted terminal value.

There were changes in certain assumptions and estimates involved for the preparation of the revised 5-year financial budgets, the cash flow projections for the period covered by the approved budget and the estimated terminal value at the end of the budget period. Key changes in assumptions, where applicable, include:

(i) Reduction in the expected growth in revenue of the Group from State Grid by reducing total forecasted revenue of the Group for the years ending December 31, 2019 to 2023;

(ii) Reduction of the Group's expected market share in the PLC market under State Grid;

(iii) Change in general operating costs which aligns with the decrease in forecasted revenue;

(iv) Change in working capital which aligns with the decrease in forecasted revenue; and

(v) Change in discount rate based on current underlying market data, etc.

Based on the revised impairment assessment on the goodwill of AMR and other business carried out by the Directors as at June 30, 2019, the Directors determined no impairment charge on the goodwill of AMR and other business was resulted as of June 30, 2019.

The Directors further performed a sensitivity analysis* on the possible changes of the key assumptions including a reasonable change on the revenue growth rates, gross profit margins and discount rates; and determined that no key assumption was unreasonably optimistic.

* The sensitivity analysis is based on a change in the relevant assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Goodwill of SMIA business

Given the financial performance of the SMIA business segment for the Period under review was less than the 2019 interim financial budgets approved by the Directors as of December 31, 2018, the Directors performed an interim assessment to assess whether the original financial budget approved for the year ending December 31, 2019 remained appropriate as of June 30, 2019. Key due diligence work performed by the Directors included revisiting the strategic plan of the SMIA business, assessing the project progress and reasonableness of the timing of revenue recognition of the backlog contracts of the SMIA business held as of June 30, 2019, forecasting the sale pipelines conducted by the management of the SMIA business with the expected market development in the medium and long run, etc.

The Group also has engaged an independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit based on the interim assessment performed by the Directors as of June 30, 2019, and determined that no impairment was resulted as of June 30, 2019.

Liquidity and Financial Resources

During the Period under review, the Group's operations were mainly financed by internal resources, including but not limited to existing cash and cash equivalents, cash flow from its 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 and funds from Convertible Bonds (as defined below) issued. The Board believes that the Group's short term liquidity needs will be satisfied whereas the Board believed that additional funding raising activities are required to meet the Group's long term liquidity needs.

As of June 30, 2019, the Group's current assets amounted to approximately RMB369.3 million (as of December 31, 2018: approximately RMB577.2 million), with cash and cash equivalents totaling approximately RMB160.3 million (as of December 31, 2018: approximately RMB267.0 million). The cash and cash equivalents of the Group are principally held in RMB and USD.

As of June 30, 2019, the Group's total interest-bearing liabilities amounted to approximately RMB327.9 million (as of December 31, 2018: approximately 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 two years (except for current portion of lease liabilities of approximately RMB5.2 million which is payable within one year) with coupon rates range from 4% to 8% 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 45.2% as of June 30, 2019 (as of December 31, 2018: approximately 34.4%).

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 Period under review and in the corresponding period of 2018, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Capital commitments

As of June 30, 2019, the Group had no material capital commitments (as of December 31, 2018: Nil).

Contingent liabilities

As of June 30, 2019, the Group had no contingent liabilities (as of December 31, 2018: Nil).

Charge on assets

As of June 30, 2019, the Group had no charge on assets (as of December 31, 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events after the Period under review up to the date of this announcement.

Prospects

In accordance with a market research, it is further expected that the procurement of AMR products by State Grid will reach 87.7 million units 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. 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 addition 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. Market participants may take chance of both bidding systems to formulate their business and marketing strategies by penetrating different geographical areas with their competitive advantages, including their pricing models, after-sales maintenance services, debtors collection cycles, technical support and etc. Nevertheless, all broadband AMR products provided by the market participants shall comply the unified standard of communication protocols with one of the main features: interconnection and intercommunication (互聯互通). As a result, broadband AMR products are relatively substitutable 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 may create a much fiercer and more intense market competition in the broadband AMR market in State Grid as compared to that of the previous generation.

As mentioned in the "Business Review", the Group experienced an unexpected further delay in the debut of PLC based broadband AMR products. As of the date of this announcement, the Group's PLC based broadband AMR product is still under the final testing and approval stage run by the respective departments of State Grid for approving the design and development of the Group's broadband system-on-chip ICs and related AMR products. The approval by respective department of State Grid is critical to the business development of our Group and that it will affect the Group's overall business strategy and position in the short and long run. The Directors will use their best endeavor to expedite the release of PLC based broadband products to the market as early as possible and to retain our competitiveness in the AMR industry in China. Based on the Directors' best estimate, the Group's PLC based broadband AMR product may pass the approval process in the second half of 2019 and the Directors expect an official launch of these products in the State Grid market by the end of 2019. Significant operational and financial risks may be encountered by the Group should the Group's PLC based broadband AMR product not pass through the final approval in year 2019 or if the Group's market share in the PLC market under State Grid is significantly less than expectation.

With the introduction of the Group's SMIA business through the acquisition of Green Harmony in the second half of 2018, the Group believed 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 utilizing the Group's own technologies and intellectual property rights.

Further, the Group commenced to explore the market of visualisation platform of intelligent factory, particularly on the reverse modeling of the pipelining system in petrochemical enterprises and the forward modeling of new pipelining projects. The Group has begun to build a full range of digital demonstration for other leading state-owned enterprises such as coal/chemical industry.

In addition, leveraging on the technology-based synergy among the Group's business segments, the Group can facilitate the application of PLC technology with obvious advantages in costing and implementation as a much-suited alternative technology in the future, by creating a significant network communication on vast site areas involved for petroleum and petrochemicals production facilities.

As of June 30, 2019, the Group's SMIA business secured backlog contracts with aggregated outstanding sales value of not less than RMB200 million in relation to sales of production safety equipment and the provision of a series of design and engineering software for establishing equipment management system and industrial internet of things, as well as the provision of maintenance services for such software. The duration of revenue recognition of the backlog contracts ranged from one year to five years.

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.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the Period 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 Period 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**") set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's Code during the Period under review.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the Period 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 ("**NM SPA**") to acquire NM Information Technology Company Limited ("**NM Technology**"), which directly holds the entire equity interest of a company established in China, which principally engages 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 (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 SPA.

According 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 HK$200 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 HK$200 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 HK$100 million of the First Promissory Note, together with payment of the accrued interest.

According 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. As of the date of this announcement, the final consideration of the Acquisition of Green Harmony was determined to be approximately HK$423 million and therefore the face value of the Second Promissory Note was reduced to approximately HK$123 million according to the terms stipulated in the GH SPA.

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$100 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 and March 15, 2019 for further details.

Purchase, Sale or Redemption of Listed Securities of the Company

During the Period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Use of Proceeds

References are made to the announcements of the Company dated June 8, 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) was approximately HK$158.2 million. Proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

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

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

From Initial Global Offering

	Original planned use of Net Proceeds	Amount utilised as of June 30, 2019	Unutilised net proceeds June 30, 2019	Reallocation on July 3, 2019	Proposed application of the Unutilised Net Proceeds
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
Research and development of the PLC technology	95.7	34.6	61.1	(37.8)	23.3
Sales and marketing	32.0	8.6	23.4	(6.9)	16.5
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	44.7
	158.2	73.7	84.5	–	84.5

As of the date of this announcement, the Company does not anticipate any change to the above plan of use of proceeds.

Employee Emolument Policies

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 of June 30, 2019, the Group had an aggregate of 263 employees (as of December 31, 2018: 355 employees). The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the directors with reference to individual performance and current 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 Interim Financial 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.

The Audit Committee has discussed with the management of the Group and reviewed the unaudited interim financial results of the Group for the Period under review, including the accounting principles and practices adopted by the Group, and discussed internal control and other financial related matters.

Publication of Interim Results Announcement and Interim 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 interim report for the Period 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 the order of the Board
Risecomm Group Holdings Limited
Cheung Fan
Chairman and Non-executive Director

Hong Kong, August 29, 2019

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. Wang Shiguang, Mr. Cheung Fan and Mr. Yang Luokui and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.