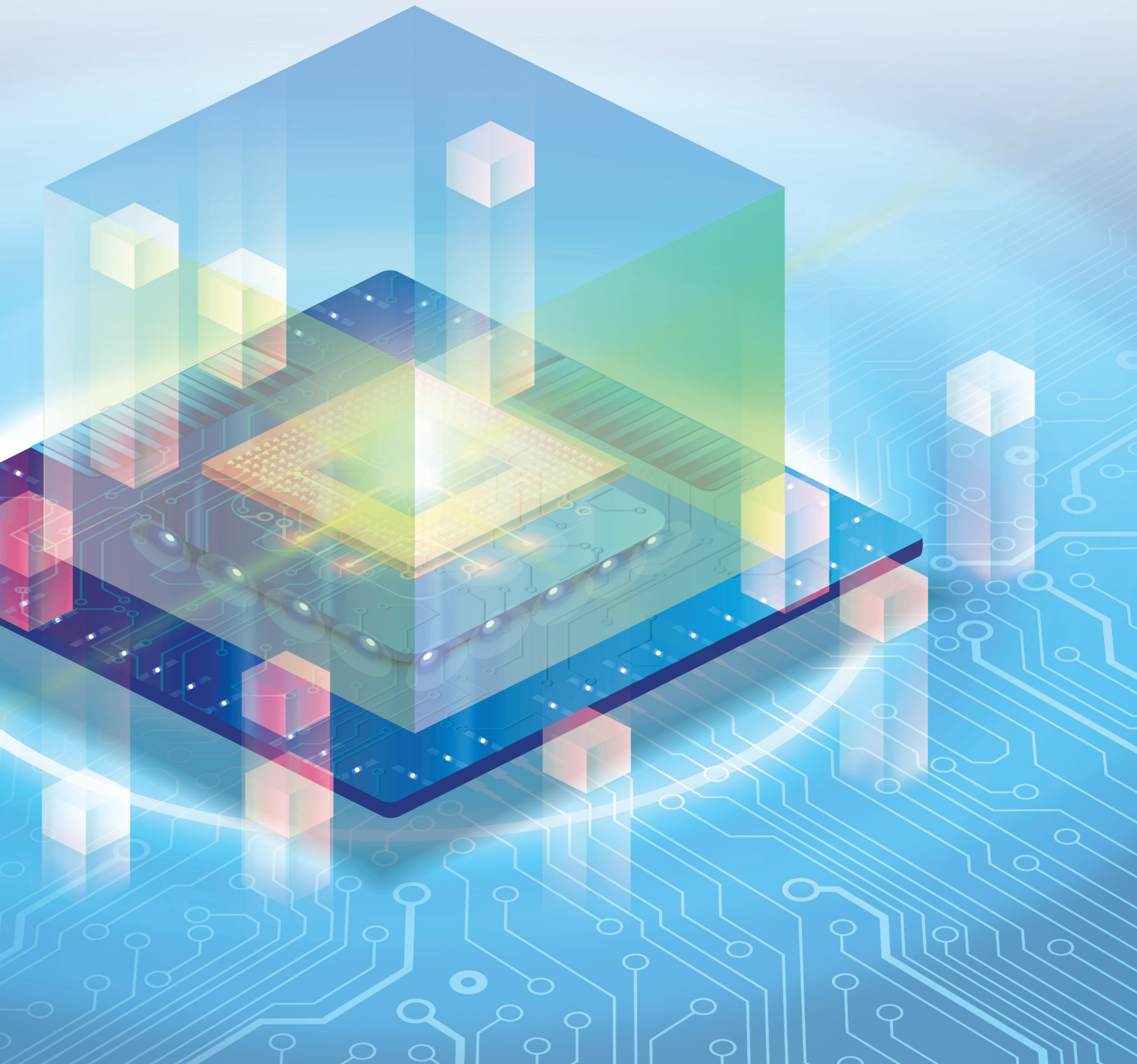
RISECOMM
瑞斯康

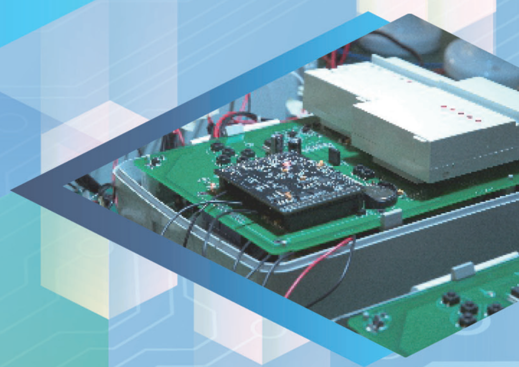
# Risecomm Group Holdings Limited
# 瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
**Stock Code: 1679**

ANNUAL REPORT 2021



# Risecomm Group Product Assembly Hub

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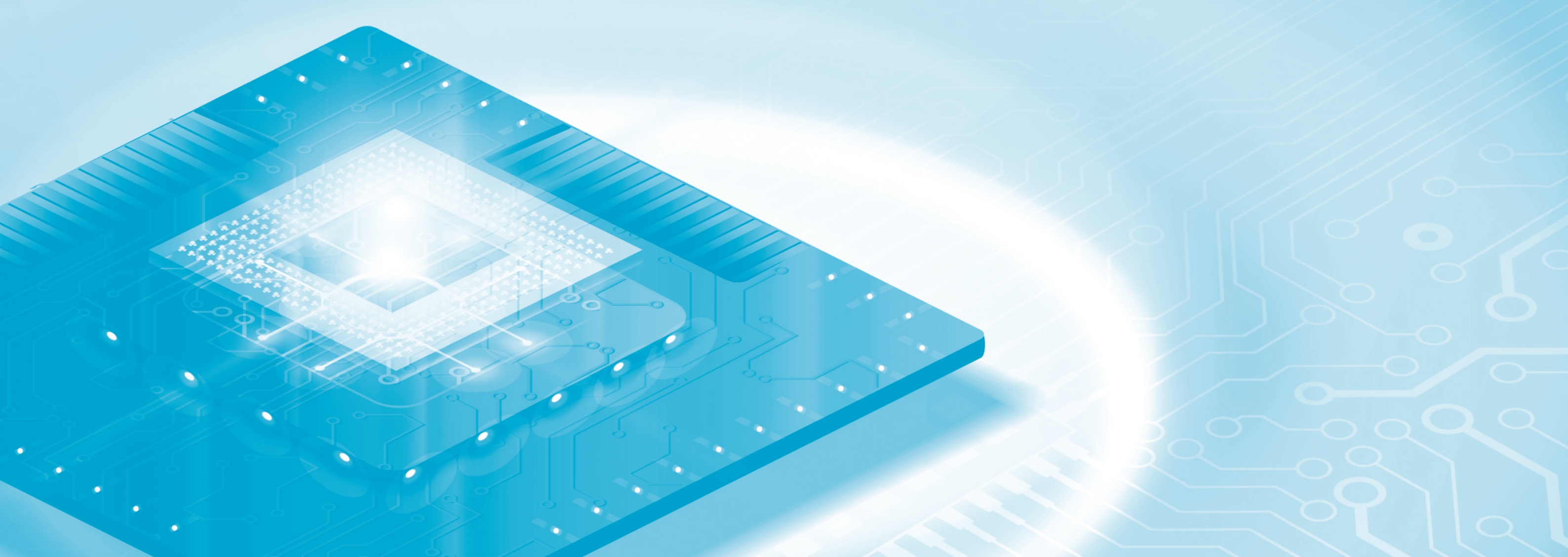

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Yue Jingxing *(Chairman)*
*(appointed as Chairman on 5 July 2021)*
Mr. Lau Wai Leung, Alfred
*(appointed on 19 January 2021)*
Mr. Jiang Feng
*(appointed on 19 April 2021)*
Mr. Tang Andong
*(resigned on 7 April 2021)*

## NON-EXECUTIVE DIRECTORS

Mr. Cheung Fan
*(ceased to be the chairman on 5 July 2021, resigned on 22 April 2022)*
Mr. Yu Lu
*(appointed on 9 September 2021)*
Mr. Ding Zhigang
*(appointed on 13 January 2022)*
Mr. Sun Peng
*(appointed on 22 April 2022)*
Mr. Wang Shiguang
*(retired on 25 June 2021)*
Ms. Pan Hong
*(retired on 25 June 2021)*
Mr. Zhou, Francis Bingrong
*(resigned on 19 January 2021)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ong King Keung
Ms. Lo Wan Man
Mr. Zou Heqiang

## COMPANY SECRETARY

Mr. Lau Wai Leung, Alfred

## AUTHORIZED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Yue Jingxing
Mr. Lau Wai Leung, Alfred

## AUDIT COMMITTEE

Mr. Ong King Keung *(Chairman)*
Ms. Lo Wan Man
Mr. Zou Heqiang

## NOMINATION COMMITTEE

Ms. Lo Wan Man *(Chairman)*
Mr. Cheung Fan
*(resigned on 22 April 2022)*
Mr. Ong King Keung
Mr. Lan Wai Leung, Alfred
*(appointed on 22 April 2022)*

## REMUNERATION COMMITTEE

Mr. Ong King Keung *(Chairman)*
Mr. Yue Jingxing
Ms. Lo Wan Man

## PRINCIPAL BANKERS

*In Hong Kong:*
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

*In the People's Republic of China (the "**PRC**"):*
Bank of China Limited
China Merchants Bank

## COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners
40/F, Jardine House
1 Connaught Place
Central, Hong Kong

## AUDITOR

RSM Hong Kong
Certified Public Accountants
29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

# Corporate Information *(continued)*

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

41/F, Block A, Building 8
Shenzhen International Innovation Valley
Xili Street, Nanshan District
Shenzhen China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4/F., Yue Thai Commercial Building
128 Connaught Road Central
Sheung Wan, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## COMPANY WEBSITE

www.risecomm.com.cn

## STOCK CODE

1679

# Chairman's Statement

## TO THE SHAREHOLDERS

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**" together with its subsidiaries, the "**Group**"), I hereby present the annual report of the Company for the year ended 31 December 2021 ("**year under review**").

Benefiting from the mitigation of the economic conflict between China and the United States (the "**U.S.**"), and the gradual recovery of China's economy from the global coronavirus (COVID-19) pandemic (the "**Pandemic**"), the Group recorded an overall increase in revenue during the year under review.

The power line communication ("**PLC**") products of the Group are mainly used in the Electric Energy Data Acquisition System of the State Smart Grid, the system is an important support for power big data. During the year under review, the overall market demand of the PLC industry began to increase. The PRC government has been continuously promoting the wider application of broadband technology, smart city construction, and energy conservation and emission reduction in China. For years, the Group has been strategically planning its resources in the research and development of products in these areas, including the investment and improvement in the areas of broadband technology, streetlight controls, building energy management and photovoltaic power management, with a view to seizing the tremendous market opportunities.

Furthermore, the smart manufacturing & industrial automation ("**SMIA**") business segment of the Group contributed part of the non-automated meter reading ("**AMR**") revenue to the inherent risks arising from the reliance on the China Grid ecosystem, thereby achieving a more balanced revenue composition. The Group is confident that its operations in oil and petroleum industry can foster a steady growth in its revenue stream and further diversify its customer base with persistent marketing efforts.

However, facing further hamper and uncertainties on Chinese economy caused by the Pandemic, the economic conflict between U.S. and China, the Group will continue to maintain a lean-cost strategy to reduce operating expenses in order to cope with future risks and pressure. In addition, the Group is persistently enhancing its corporate governance in all aspects of the Group's operations by continuously leveraging its competitive advantages in a bid to preserve values for the shareholders of the Company ("**Shareholders**").

Lastly, on behalf of the Board and the management, I wish to extend my sincere appreciation to all the staff of the Group for their tireless dedication and tremendous contribution during the year, and to also express my thanks to all Shareholders, investors, customers, suppliers and business partners for their ongoing support to the Group.

**Yue Jingxing**
*Chairman and Executive Director*

Hong Kong, 29 March 2022

# 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. Narrowband to broadband, single-mode to dual-mode technology is the development trend of communication technology in the second round of transformation. Currently, the products of State Grid using PLC broadband technology have entered into the mass application stage. With the implementation of the new standard for electric meters in the second half of 2020 and the relief of the COVID-19 pandemic ("**Pandemic**"), the demand for smart meters began to increase in 2021. During the year under review, State Grid conducted two rounds of centralized bidding for energy meters and Electric Energy Data Acquisition Systems. The number of tenders for Electric Energy Data Acquisition Systems is about 66.74 million, representing a year-on-year increase of approximately 26% compared with 2020.

Although the overall market demand in PLC remains strong and promising, under the current Sino-U.S. trade tension, more state-owned enterprises ("**SOE**") and sizeable technology-based companies tapped into the chipsets market as a result of the supportive direction conducted by the Chinese government for the promotion of national self-developed chipsets. A significant portion of the PLC market shares is taken up by SOE. Hence, the competition among domestic PLC market participants is even more intense.

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 "Intelligent Manufacturing Development Plan (2016-2020)" (智能製造發展規劃(2016-2020年)) proposes that by 2025, China can basically establish an intelligent manufacturing support system, and the key industries can basically realize digital manufacturing and even achieve intelligent transformation. 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 RMB248.2 million (2020: approximately RMB212.7 million), representing an increase of approximately 16.7%.

The Group's AMR and other business segment recorded a revenue of approximately RMB48.3 million (2020: approximately RMB54.7 million), representing a decrease of approximately 11.7%. Revenue from AMR and other business segment for the year under review accounted for approximately 19.5% (2020: 25.7%) of the Group's total revenue. The decrease in revenue from AMR and other business segment for the year under review was mainly due to a decreased demand in China for the Group's PLC based narrowband AMR products by State Grid during the year under review, partially offset by the increased export demand for the Group's PLC based narrowband AMR products by meter manufacturers who adopted the Group's narrowband AMR products for production of their smart meters, which are ultimately exported to overseas countries. The High-speed Power Line Communication ("**HPLC**") chips, being one of the high data rate PLC products for AMR and smart energy management ("**SEM**") business of the Group, developed by the Group have satisfied the requirements of Electric Energy Data Acquisition Standards (電力用電資訊採集系列標準) of State Grid and have passed the inspection and testing thereof by the State Grid Measurement Center (國家電網計量中心). Such accreditation indicates that the HPLC chips of the Group meet the market entry requirements promulgated by the State Grid Measurement Center and therefore are eligible for participation in the centralized biddings conducted by State Grid. The HPLC chips developed by the Group will better meet the application needs of State Grid and accelerate the Group's development in smart energy applications market. In December 2021, the Group has won two major biddings for sales of its HPLC chips to two electric power companies located in two provinces in China. Such sales are expected to contribute to the Group's revenue in the future.

The outbreak of the Pandemic in early 2020 and its continuance in 2021 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 as the Pandemic evolves.

During the year under review, the Group's SMIA business segment recorded a revenue of approximately RMB199.9 million (2020: approximately RMB158.0 million), representing an increase of approximately 26.5%. Revenue from SMIA business segment for the year under review accounted for approximately 80.5% (2020: 74.3%) of the Group's total revenue.

The increase in revenue from the SMIA business segment was mainly due to the increase in number of software license projects with high contract values being awarded during the year under review which resulted in the significant increase in software license revenue by approximately 157.1% to approximately RMB82.5 million as compared to the corresponding period in 2020, partially offset by the decrease in construction contracts revenue by approximately 7.2% to approximately RMB91.8 million as compared to the corresponding period in 2020.

The Group recorded a decrease in loss attributable to the equity shareholders of the Company from approximately RMB126.0 million in the corresponding period in 2020 to approximately RMB55.3 million for the year under review.

The decrease in loss attributable to the equity shareholders of the Company was mainly attributable to (i) increase in gross profit of the Group; (ii) the recognition of a net reversal for impairment losses on financial assets for the year under review due to the recovered trade and other receivables, as compared to the recognition of a net allowance for impairment losses on financial assets for the year ended 31 December 2020; (iii) decrease in impairment of goodwill as no impairment of goodwill has been recognised during the year under review; (iv) decrease in amortization of intangible assets as certain customer relationships and non-compete undertakings have been fully impaired during the year ended 31 December 2020 and therefore are not subject to further amortization during the year under review; and (v) decrease in fair value losses of convertible bonds during the year under review.

## RESEARCH AND DEVELOPMENT

The Group has been committed to PLC IC design and its applications tailored to China's market environment since the inception in the industry in 2006 by establishing its core competency in designing advanced application-specific 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 2021, the research and development team of the Group consisted of 51 employees (as at 31 December 2020: 49 employees), representing approximately 31% (as at 31 December 2020: approximately 28%) of the Group's total workforce, specializing in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As at 31 December 2021, the Group held a significant intellectual property portfolio, comprising 22 patents, 129 computer software copyrights and 9 IC layout designs registered, with 3 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development in PLC technology and MSI for the petroleum and petrochemicals industry.

## FINANCIAL REVIEW

### Revenue

Revenue increased from approximately RMB212.7 million for the corresponding period in 2020 to approximately RMB248.2 million for the year under review, or by approximately 16.7%. The increase was due to the increase in revenue of approximately 26.5% from the SMIA business segment which is partially offset by the decrease in revenue of approximately 11.7% from the AMR and other business segment.

The decrease in revenue from the AMR and other business segment was mainly due to a decreased demand in China for the Group's PLC based narrowband AMR products by State Grid during the year under review, partially offset by the increased export demand for the Group's PLC based narrowband AMR products by meter manufacturers who adopted the Group's narrowband AMR products for production of their smart meters, which are ultimately exported to overseas countries.

The increase in revenue from the SMIA business segment was mainly due to the increase in number of software license projects with high contract values being awarded during the year under review which resulted in the significant increase in software license revenue by approximately 157.1% to approximately RMB82.5 million as compared to the corresponding period in 2020, partially offset by the decrease in construction contracts revenue by approximately 7.2% to approximately RMB91.8 million as compared to the corresponding period in 2020.

## Gross profit

Gross profit increased by approximately 28.3% to approximately RMB43.0 million for the year under review from approximately RMB33.5 million for the corresponding period in 2020.

Gross profit margin was approximately 17.3% for the year under review and increased by approximately 1.5 percentage points as compared with approximately 15.8% for the corresponding period in 2020. The increase in gross profit margin of the Group was mainly attributable to the increase in gross profit margin of the Group's construction contracts service line to approximately 6.3% for the year under review from approximately 2.1% for the corresponding period in 2020.

## Other income, gains/(losses)

Other income, gains/(losses) decreased by approximately 23.4% to approximately RMB6.2 million for the year under review from approximately RMB8.1 million for the corresponding period in 2020. The decrease was mainly attributable to (i) decrease in interest income from bank deposits for the year under review by approximately RMB1.2 million and (ii) decrease in conditional government grants for the year under review by approximately RMB0.6 million, as compared to the corresponding period in 2020.

## Reversal/(allowance) for impairment losses on financial assets, net

Net reversal for impairment losses on financial assets of approximately RMB10.3 million was recognised during the year under review (for the corresponding period in 2020: net allowance for impairment losses on financial assets of approximately RMB27.9 million). The reversal during the year under review was mainly attributable to the Group's collection efforts made to recover the credit-impaired trade and other receivables.

## Selling and marketing expenses

Selling and marketing expenses increased by approximately 29.3% to approximately RMB24.7 million for the year under review from approximately RMB19.1 million for the corresponding period in 2020. The increase was mainly attributable to more project consultancy fees incurred by the Group's SMIA business segment during the year under review to secure potential projects.

## General and administrative expenses

General and administrative expenses decreased by approximately 21.3% to approximately RMB60.8 million for the year under review from approximately RMB77.2 million for the corresponding period in 2020. The decrease was primarily attributable to (i) a decrease in amortization of intangible assets as certain customer relationships and non-compete undertakings have been fully impaired during the year ended 31 December 2020 and therefore are not subject to further amortization during the year under review; and (ii) decrease in impairment of intangible assets as no impairment of intangible assets has been recognised during the year under review.

## Research and development expenses

Research and development expenses decreased by approximately 9.7% to approximately RMB19.6 million for the year under review from approximately RMB21.7 million for the corresponding period in 2020. The decrease was mainly attributable to an implementation of tightened cost control measures adopted by the Group on research and development expenses. During the year under review, the Group had strategically retained the resources on the development of the Group's core PLC technology and the expansion of software application in the SMIA business segment.

## Income tax credit

Income tax credit of approximately RMB6.8 million was recorded during the year under review (for the corresponding year in 2020: income tax credit of approximately RMB26.9 million). The recognition of income tax credit was mainly attributable to the recognition of deferred tax asset arising from tax losses.

## Impairment of Goodwill

In accordance with the relevant requirements under "Hong Kong Accounting Standard 36 — Impairment of Assets", the Group performed impairment test with assistance of an external valuation firm for the goodwill arising from the acquisitions of North Mountain Information Technology Company Limited ("**NM Technology**") and Green Harmony Limited ("**Green Harmony**"). After conducting impairment tests, the Group recognized impairment loss of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2020: approximately RMB23.3 million) and nil for the year under review (2020: nil) respectively, after which, carrying amount of two cash-generating units have been reduced to recoverable amount. Please refer to note 21 to the consolidated financial statements as set out in this report for further details.

## Loss Attributable to Equity Shareholders of the Company

As a result of the above factors and the change in fair value of convertible bonds of approximately RMB6.9 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 RMB55.3 million (2020: loss attributable to equity shareholders of the Company of approximately RMB126.0 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 of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 9 June 2017; (iii) net proceeds generated from the Subscriptions (as defined below) of new shares under general mandate completed in July 2021 and (iv) net proceeds generated from the Rights Issue (as defined below) completed in December 2021. The Board believes that the Group's liquidity needs will be satisfied.

As of 31 December 2021, the Group's current assets amounted to approximately RMB263.2 million (as of 31 December 2020: approximately RMB281.6 million), with cash and cash equivalents totaling approximately RMB91.7 million (as of 31 December 2020: approximately RMB121.7 million). The cash and cash equivalents of the Group are principally held in RMB, HKD and USD.

As of 31 December 2021, the Group's total interest-bearing liabilities amounted to RMB133.5 million (as of 31 December 2020: RMB254.3 million), representing lease liabilities, issued Convertible Bonds (as defined below) and other borrowings. The Group had interest-bearing liabilities of RMB121.4 million (as of 31 December 2020: RMB244.1 million) and RMB12.2 million (as of 31 December 2020: RMB10.2 million) which will be due repayable within one year and after one year respectively with coupon rates ranging from 4% to 4.75% per annum. The net debt-to-equity ratio (referred as to the gearing ratio: interest-bearing liabilities less cash and cash equivalents divided by total equity) was approximately 21.6% as of 31 December 2021 (as of 31 December 2020: 116.0%).

## 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 current maturity date of the Convertible Bonds is 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**").

Based on the Adjusted Conversion Price and assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price, the Convertible Bonds will be convertible into 187,500,000 Conversion Shares, representing approximately 10.6% of the issued share capital of the Company as at 31 December 2021 and approximately 9.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, respectively. Assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price and on the basis that the existing number of shares of the Company in issue as at 31 December 2021 remains unchanged as at the date of the conversion, the shareholding of the substantial shareholders of the Company (has the meaning ascribed to it under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**")) as at 31 December 2021 will be as follows, as to: (i) 17.4% by Mr. Ding Zhigang; (ii) 11.8% by SRA; and (iii) 10.1% by SB Asia Investment Fund II L.P.

The Adjusted Conversion Price represents (i) a discount of approximately 68.0% over the Initial Conversion Price of HK$2.50 per Conversion Shares; (ii) a premium of approximately 6.67% over the closing price of HK$0.75 per share of the Company as quoted on the Stock Exchange on 24 June 2020 (the "**Last Trading Day**"); (iii) a premium of approximately 8.11% over the average closing price of HK$0.74 per share of the Company as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 11.11% over the average closing price of HK$0.72 per share of the Company as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

As the Adjusted Conversion Price represents a less premium to the prevailing market price of the shares of the Company when compared to the Initial Conversion Price of HK$2.50, the chance of conversion of the Convertible Bonds is less remote and if the Convertible Bonds are converted into shares of the Company, the financial position of the Group will be strengthened with the conversion of debt into equity capital and the pressure on the Company's liquidity and cash flow can be reduced.

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, and 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.

## Capital Commitments

As at 31 December 2021 and 2020, save as disclosed in note 44 to the consolidated financial statements, the Group had no other capital commitments.

## Contingent Liabilities

As at 31 December 2021, the Group had no contingent liabilities (as at 31 December 2020: nil).

## Charge on assets

As at 31 December 2021, the Group had no charge on assets (as at 31 December 2020: nil).

## 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 2021, State Grid will continue to apply broadband technology in the Electric Energy Data Acquisition Systems. The Group is promoting and expanding its PLC broadband products (PLC IC and communication modules) 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.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Yue Jingxing (岳京興) ("Mr. Yue"), aged 64**, was appointed as a Director in February 2016, and was designated as an executive Director and the chief executive officer of the Company in May 2017, who is responsible for overall strategic planning, research and development directions and business development of the Group. Due to work allocation, Mr. Yue has ceased to act as the chief executive officer of the Company with effect from 24 June 2020 but remains to be an executive Director and a member of the remuneration committee of the Company. Mr. Yue was appointed as the Chairman of the Board on 5 July 2021.

Mr. Yue has been a director of Risecomm (HK) Holding Co. Limited ("**Risecomm HK**"), Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), Wuxi Risecomm Communication Technology Company Limited ("**Risecomm Wuxi**"), Risecomm (HK) Technology Co. Limited ("**Risecomm HK Technology**"), Risecomm Co. Ltd. ("**Old Cayman**") and NM Technology since December 2015, January 2007, October 2010, December 2015, September 2006 and April 2018, respectively. He has also been the president of Risecomm WFOE since May 2006.

Mr. Yue is one of the co-founders of the Group. He has more than 25 years of experience in IC design. Prior to founding the Group in May 2006, Mr. Yue worked in Hughes Network Systems (now known as Hughes), a company in U.S. engaged in delivering innovative network technologies, managed services, and solutions, as a senior technical manager responsible for hardware and ASIC design for telecommunication equipment from 1994 to 2005.

Mr. Yue obtained a bachelor's degree in Engineering from Beijing University of Technology (北京工業大學) in the PRC in July 1982. He then obtained a master's degree in Science from the Institute of Semiconductors, Chinese Academy of Science (中國科學院半導體研究所) in the PRC in August 1986. Mr. Yue further obtained a master's degree in Electrical Engineering from Bradley University in U.S. in May 1991.

As of 31 December 2021, Mr. Yue was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

**Lau Wai Leung, Alfred (劉偉樑) ("Mr. Lau"), aged 41**, has been appointed as an executive Director with effect from 19 January 2021. Mr. Lau is also the company secretary of the Company and the finance director of Risecomm HK. He has been appointed as a company secretary of the Company in July 2020. Prior to his appointment of company secretary, Mr. Lau was a director of the Company from 22 November 2017 to 24 June 2020. On 22 April 2022, Mr. Lau was appointed as a member of the nomination committee of the Company.

Mr. Lau has approximately 20 years of working experience in accounting, corporate finance, debt restructuring and private equity investment. He obtained a bachelor's degree in business administration from the City University of Hong Kong in 2002. He is a member of the American Institute of Certified Public Accountants and also certified as a certified public accountant in Washington State of the United States of America.

Mr. Lau has been an independent non-executive director of Sau San Tong Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8200) since 16 December 2016 and Xinming China Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 2699) since 18 November 2021. He was an independent non-executive director of Samson Paper Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 731) from 17 July 2020 to 21 May 2021, and re-designated as an executive director since 21 May 2021. On 26 January 2022, Mr. Lau resigned as an executive director of such company.

**Jiang Feng (江峰) ("Mr. Jiang"), aged 48**, was appointed as an executive Director on 19 April 2021.

Mr. Jiang has extensive experience in sales and sales management. He has over 25 years of working experience in petroleum and petrochemical industries. He obtained a bachelor's degree in Exploration Geophysics from Jianghan Petroleum Institute* (江漢石油學院) (currently known as Yangtze University (長江大學)) in June 1994 and obtained a master's degree of Business Administration from Communication University of China (中國傳媒大學) in July 2014.

Mr. Jiang is the sales director of Beijing Hongteng Weitong Technology Co., Ltd (北京鴻騰偉通科技有限公司), which is one of the subsidiaries of the Company.

## NON-EXECUTIVE DIRECTORS

**Cheung Fan (張帆) ("Mr. Cheung"), aged 50**, was appointed as a non-executive Director on 7 September 2018. On 10 June 2019, Mr. Cheung was re-designated as the Chairman of the Board and the chairman of Nomination Committee. With effect from 5 July 2021, Mr. Cheung has ceased to be the chairman of the Board and chairman of the Nomination Committee. Mr. Cheung resigned as non-executive Director and a member of the nomination committee of the Company on 22 April 2022.

Mr. Cheung has over 10 years of working experience in financial services and capital market. Mr. Cheung has worked in Phillip Securities (HK) Ltd. and Quam Securities Company Limited (now known as China Tonghai Securities Limited) during the period from 2006 to 2010 and from 2011 to 2015 respectively. Mr. Cheung was the chief executive officer and a director of Long Asia Securities Limited ("**Long Asia**") (formerly known as Long Asia Securities and Futures Limited) from 2017 to October 2018 and became the chief executive officer of Lead Securities (HK) Limited (after the change of business name from Long Asia) since November 2018 accordingly, which he is mainly responsible for stock dealing, initial public offering subscription and securities underwriting. He is also a responsible officer to carry on Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**").

**Yu Lu (于路) ("Mr. Yu"), aged 59**, was appointed as a non-executive Director on 9 September 2021. Mr. Yu obtained a bachelor of Arts degree in English from Beijing Union University (北京聯合大學) in July 1988 and obtained an Executive Master's degree of Business Administration (EMBA) from Nankai University (南 開 大 學) in December 2012. Mr. Yu has worked in Tianjin Precious Metals Exchange Co., Ltd. since 2008 and has been its vice-chairman since 2013. He has extensive experience in the areas of investment and financial services.

As of 31 December 2021, Mr. Yu was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

**Ding Zhigang (丁志鋼) ("Mr. Ding"), aged 61**, was appointed as a non-executive Director on 13 January 2022. Mr. Ding obtained a bachelor of laws degree in economic law from China University of Political Science and Law (中國政法大學) in July 1986. He then obtained a master's degree of monetary banking from Chinese Academy of Social Sciences (中國社會科學院) in November 1998. Mr. Ding is a lawyer of the People's Republic of China, and he also has extensive experience in investment.

As of 31 December 2021, Mr. Ding was interested in certain Shares. Please refer to the section headed "Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares" in this report for further details.

**Sun Peng (孫鵬) ("Mr. Sun"), aged 38,** was appointed as a non-executive Director on 22 April 2022. Mr. Sun obtained a bachelor of laws degree from Tianjin University (天津大學) in July 2006. Mr. Sun has extensive experience in investment and corporate finance. He is currently the chairman of Shenzhen Futian Supply Chain Technology Finance Association* (深圳市福田區供應鏈科技金融協會).

* *for identification only*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Zou Heqiang (鄒合強) ("Mr. Zou"), aged 53**, has been appointed as the independent non-executive Director on 29 May 2019.

Mr. Zou graduated from Shanghai Medical University in 1991 with major in forensic medicine and obtained a master degree in Law from the Shanghai Academy of Social Sciences in 2005. Mr. Zou holds the qualifications of lawyer and deputy chief physician of general surgery.

After graduating from undergraduate degree, Mr. Zou has been engaged in the clinical work and management of pathology research, general surgery and intensive care, and obtained the title of deputy chief physician of general surgery. He changed to the lawyer industry in 2008 and is currently practicing at Shanghai Yingdong Law Firm, mainly focusing on the medical dispute resolution, system construction in the field of medical safety management and contract disputes. Mr. Zou was appointed as the legal counsel of the Shanghai Jing'an District Health Commission (上海市靜安區衛生健康委員會) and the mediator of the Shanghai Jing'an District Medical Dispute Resolution Committee (上海市靜安區醫患糾紛調解委員會). At the same time, he has been employed as the legal advisor for certain companies and has accumulated extensive experiences in corporate compliance and risk control.

**Lo Wan Man (盧韻雯) ("Ms. Lo"), aged 47**, has been appointed as the independent non-executive Director on 29 May 2019. On 5 July 2021, Ms. Lo was appointed as the chairman of the nomination committee of the Company.

Ms. Lo has over 20 years of experience in the area of accounting, auditing and financial management for both listed and private companies in Hong Kong and the PRC by working in an international accounting firm and other listed companies. She obtained a master of science in finance from City University of Hong Kong in July 2005. She worked at Ernst & Young from March 2001 to December 2003. She was then employed by Emperor Motion Picture (Hong Kong) Limited as finance manager from May 2004 to July 2008. Subsequently, she worked at New World Telecommunications Limited as finance manager in July 2008 until her resignation in March 2010. She was a finance manager of Midland IC&I Limited from May 2011 to January 2014. Since May 2015 she has been employed by MCGI Consultancy Limited as a senior consultant. Since April 2019, she has been appointed as the company secretary and authorized representative of Man Shun Group (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1746). Ms. Lo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2003.

**Ong King Keung (王競強) ("Mr. Ong"), aged 46**, was appointed as an independent non-executive Director on 16 May 2017. Mr. Ong is responsible for providing independent judgment and scrutinizing the performance of the Group.

Mr. Ong obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University and a master's degree in corporate finance from the City University of Hong Kong. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 15 years of experience in auditing and accounting industry. Mr. Ong is currently the company secretary of Harbour Digital Asset Capital Limited (formerly known as Unity Investments Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 913).

Mr. Ong is an independent non-executive director of Bingo Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8220) since December 2016; K Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8475) since May 2021; and Kunming Dianchi Water Treatment Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 3768) since November 2021.

Mr. Ong was an independent non-executive director of China Water Affairs Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 855) for the period from March 2007 to November 2019.

Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (now known as Smart City Development Holdings Limited), a company listed on the GEM of the Stock Exchange (stock code: 8268) since December 2014 and has been subsequently re-designated as a non-executive director since December 2015. In July 2019, Mr. Ong resigned as non-executive director of such company. Mr. Ong was an independent non-executive director of My Heart Bodibra Group Limited (now known as Ocean Star Technology Group Limited), a company listed on GEM of the Stock Exchange (stock code: 8297) for the period from December 2017 to May 2021. Mr. Ong has not held any other directorships in any public listed companies in the past three years

## SENIOR MANAGEMENT OF THE GROUP

**Chen Junling (陳俊玲) ("Ms. Chen"), aged 49**, is the general manager of Risecomm Beijing Comm responsible for overall supervision of sales and marketing of the AMR business. She has joined the Group as the general manager of Risecomm Beijing Comm since June 2014. She is the spouse of Mr. Wang Shiguang, who is a non-executive Director within the last 12 months.

Ms. Chen has approximately 20 years of experience in electronics and power meter sales and marketing.

Prior to joining the Group, from November 2000 to August 2009, Ms. Chen worked as a sales manager in Beijing Taide Jiaxun Technology Co., Ltd., a company engaged in, among others, the sales of electrical and communication equipment. Ms. Chen was the sales manager of Beijing RSK Electronics from September 2009 to March 2014. Ms. Chen graduated from Henan Province Zhumadian First High School in the PRC in July 1990.

**Liu Ming (劉明) ("Mr. Liu"), aged 51**, is the vice president of Risecomm WFOE responsible for sales management of the smart energy management products and solutions. He joined the Group in June 2006 as the sales and marketing director of Risecomm WFOE and has been the vice president of Risecomm WFOE since February 2009. Mr. Liu has also been a director of Risecomm (Beijing) Technology Company Limited ("**Risecomm Beijing Tech**") since May 2016.

Mr. Liu has over 25 years of experience in the intelligent technology industry. From 1994 to 2003, Mr. Liu worked in Shenzhen Kaifa Technology Co., Ltd., a company principally engaged in manufacturing electronic products and listed on the Shenzhen Stock Exchange (stock code: 000021), as a marketing manager. From 2003 to 2005, Mr. Liu worked as a deputy general manager in Shenzhen Haoyuan Technology Co. Ltd. From 2005 to May 2006, Mr. Liu worked in Shenzhen Haoyuan Electronics Co., Ltd., as a deputy general manager.

Mr. Liu obtained a bachelor's degree in Electro-mechanical and Electronic Precision Machinery from the University of Electronic Science and Technology of China in the PRC in July 1994.

**Chen Shuiying (陳水英) ("Ms. Chen SY"), aged 47**, is the vice president and financial controller of Risecomm WFOE responsible for financial system management of the Group. She has joined the Group as the financial controller of Risecomm WFOE since March 2013. Ms. Chen SY has been a director of each of Risecomm HK and Risecomm HK Technology since December 2015. She has been a director of Risecomm WFOE since May 2018. She has also been the vice president of Risecomm WFOE since April 2020.

Ms. Chen SY has approximately 20 years of experience in the areas of finance and accounting. From 1997 to 2001, Ms. Chen SY worked as an account supervisor at Shenzhen Guanlanhu Golf Club Co., Ltd., a golf and leisure resort operator in the PRC. From November 2001 to October 2008, Ms. Chen SY worked as a senior finance manager at Sylva Industries Limited, a Hong Kong company engaged in the manufacturing of rechargeable batteries, responsible for financial analysis. From November 2008 to October 2012, Ms. Chen SY worked as the finance manager at ASV Stuebbe Pumps & Valves (Shenzhen) Co., Ltd., a company principally engaged in manufacturing and development of plastic pumps, valves and instrumentation systems, responsible for overall financial management of all subsidiaries in Asia.

Ms. Chen SY obtained a bachelor's degree in International Finance from Nanjing Audit University (currently known as Nanjing Audit University) in the PRC in July 1997.

**Zhang Youyun (張友運) ("Mr. Zhang"), aged 62**, has joined the Group as an administrative controller of Risecomm WFOE since June 2006 and has been the executive vice president of Risecomm WFOE since April 2015. Mr. Zhang has been a director of Risecomm WFOE and NM Technology since May 2018 and April 2018, respectively. Mr. Zhang was an executive Director until 31 July 2019. Mr. Zhang was a director of Risecomm Beijing Tech from May to August 2016.

Mr. Zhang has more than 30 years of experience in the intelligent technology industry. Prior to joining the Group, from 1982 to 1993, Mr. Zhang worked as an engineer in Changjiang Woolen and Textile Limited (長江毛紡織有限公司). In 1993, Mr. Zhang commenced working in Shenzhen Kaifa Technology Co., Ltd. (深圳長城開發科技股份有限公司), a company principally engaged in manufacturing electronic products and listed on the Shenzhen Stock Exchange (stock code: 000021), and worked as a program manager from 1996 to 2003. He then worked at Shenzhen Haoyuan Technology Co. Ltd. (深圳市昊元科技有限公司), a company engaged in, among others, development of communication and control IC chips and related application products, as a deputy general manager from 2003 to 2005. From April 2005 to May 2006, Mr. Zhang worked in Shenzhen Haoyuan Electronics Co., Ltd. (深圳市昊元電子有限公司), a technological development company in the PRC, as a deputy general manager.

Mr. Zhang obtained a bachelor's degree in Industrial Electrical Automation from Hua Dong Textile Institute (華東紡織工學院) (currently known as Donghua University (東華大學)) in the PRC in July 1982. In May 2018, Mr. Zhang was awarded the "Electrical Engineering Senior Engineer" qualification certificate issued by Shenzhen Human Resources and Social Security Bureau (深圳人力資源和社會保障局).

Save as disclosed herein, to best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the members of the senior management has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this report.

# Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 August 2015 under the Companies Law of the Cayman Islands. The Company acts as an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 23 and 24 to the consolidated financial statements, respectively.

## SHARE CAPITAL

As of 31 December 2021, the total issued share capital of the Company was approximately HKD177,591 divided into 1,775,908,606 ordinary Shares of nominal value of HKD0.0001 each. Details of movements during the year under review in the share capital of the Company are set out in note 30 to the consolidated financial statements.

## DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year under review.

## BUSINESS REVIEW

A fair review of the business of the Group during the year under review, a discussion about the Group's future business development and an analysis of the Group's performance using financial key performance indicators are set out in the sections headed "Business Review" and "Prospects" in the "Management Discussion and Analysis" in this report and a discussion of the principal risks and uncertainties facing by the Group is included in this section and note 6 to the consolidated financial statements. The review forms part of this Directors' Report.

## ENVIRONMENT PROTECTION

The Group has formulated certain policies in accordance with environmental regulations, including, during the stage of design, research, and development, conducting environmental impact assessment for various types of materials or machines prior to making any purchasing decision, enhancing awareness of environmental protection among all employees by organizing environmental protection activities, training programmes and promotions. Top management of the Group plays a leading role in establishing a well-defined structure and system for environmental management by outlining corresponding responsibility, scope and policy.

During the daily operations, the Group has paid close attention to the latest development of domestic and international environmental protection laws and regulations to ensure that the environmental policies are in line with the domestic and international standards, as well as the global development.

The two major operating subsidiaries of the Group received ISO14001:2015 environment management system certifications, which are valid to May 2024 and December 2024 respectively and subject to renewal. During the year under review, the Group did not receive any notice or warning in relation to pollution in respect of its production, nor had the Group been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC.

## RELATIONSHIP WITH EMPLOYEES

The Group's success depends on its ability to attract, retain and motivate qualified personnel. The Group has generally been able to attract and retain qualified personnel and maintain a stable core management team. The Group is dedicated to the training and development of its employees. The Group leverages its R&D 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.

In accordance with the applicable PRC laws and regulations, the Group provides its employees with basic pension, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing provident funds. The Group pays great attention to its employee welfare, and continually improve its welfare system.

The Group believes that it maintains a good working relationship with its employees and the Group did not experience any significant labour disputes or disputes with the labour department of the PRC government during the year under review.

The two major operating subsidiaries of the Group have received ISO45001:2018 certifications for occupational health and safety management system, which are valid to May 2024 and December 2024 respectively and subject to renewal. The Group has implemented safety measures at its product assembly hub to ensure compliance with applicable regulatory requirements and to minimize the risk of injury of employees. The Group conducts periodic inspections of operating facilities to ensure that its product assembly operations are in compliance with existing laws and regulations. Furthermore, the Group requires new employees to receive work safety training.

## RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group strives to build and maintain long term and strong relationships with customers. The Group's business department has from time to time conducted a customer satisfaction management survey with a view to understand and fulfil customers' demands and enhance their satisfaction. In terms of suppliers, the Group's objective is to keep mutually beneficial and win-win partnerships with all suppliers. At the same time, the Group regularly evaluates the performance of its suppliers.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

## RISK FACTORS

The main activities of the Group include R&D, production and sales of PLC products and provision of SMIA services and products. During the year under review, the Group's AMR business was largely affected by the market environments in China's AMR deployment, and procurement paces of State Grid and China Southern Power Grid Co., Ltd. ("**Southern Grid**"). The outbreak of the Pandemic in early 2020 and its continuance in 2021 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 long-term business and profitability growth of the Group are expected to be continuously impacted by variables of major qualitative factors (such as the development of political and economic policies of China and further development of Pandemic). The Group's current operations and development are under influence of certain factors mainly including:

## PLC Technology in AMR business in China

The Group designs and develops AMR products to a large extent for sale to meter manufacturers which in turn supply smart meters to power grid companies in China, as well as for sale to power grid companies, both directly and indirectly through their designated entities and from time to time, other technology companies. The competition landscape has been changed as a portion of the PLC market shares retained by SOE, in general. Hence, the competition among domestic PLC market participants are even more intense although the overall market demand in PLC remains strong and promising.

To mitigate the effect from AMR business risk, the Group continues to strengthen its capabilities in PLC technology and R&D to enhance its AMR product functionality and features, in addition to expansion of new markets.

## SMIA business

The ongoing economic conflict between the world's two largest national economies, China and the U.S. affected the strategic development and expansion planning on the State-owned enterprises, particularly in the petroleum industry which resulted in the reconsideration on the prioritization of resources deployment. This may lead to unexpected delay in delivery/implementation of certain contracts held by the Group. To mitigate the effect from SMIA business risk, the Group will further explore potential customers in different industries.

## 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 2020, 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.

## DIVIDEND POLICY

The Company has adopted a Dividend Policy on payment of dividends. The Company intends to distribute no less than 30% of its profit attributable to equity shareholders as dividends to its Shareholders, subject to the conditions and factors as set out below:

- results of operations;
- working capital and cash position;
- future business and earnings;
- capital requirements;
- contractual restrictions, if any; and
- any other factors that the Directors may consider relevant.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the provisions of the Articles of Association of the Company (the "**Articles**") and all applicable laws and regulations and the factors set out above. Any final dividend for a financial year will be subject to Shareholders' approval.

## FINAL DIVIDEND

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

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2021 comprised the share premium and accumulated losses of Nil (2020: Nil).

## DIRECTORS

The directors of the Company during the year under review and up to the date of this report were:

### Executive Directors

Mr. Yue Jingxing *(Chairman) (appointed as Chairman on 5 July 2021)*
Mr. Lau Wai Leung, Alfred *(appointed on 19 January 2021)*
Mr. Jiang Feng *(appointed on 19 April 2021)*
Mr. Tang Andong *(resigned on 7 April 2021)*

### Non-Executive Directors

Mr. Cheung Fan *(ceased to be the Chairman on 5 July 2021)*
Mr. Yu Lu *(appointed on 9 September 2021)*
Mr. Ding Zhigang *(appointed on 13 January 2022)*
Mr. Wang Shiguang *(retired on 25 June 2021)*
Ms. Pan Hong *(retired on 25 June 2021)*
Mr. Zhou, Francis Bingrong *(resigned on 19 January 2021)*

### Independent Non-Executive Directors

Mr. Ong King Keung
Ms. Lo Wan Man
Mr. Zou Heqiang

## DIRECTORS' PROFILES

Directors' profiles are set out on page 12 to 16 of this report.

Pursuant to Article 84(1) of the Articles, Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang will retire at the forthcoming annual general meeting. In addition, Mr. Yu Lu, Mr. Ding Zhigang and Mr. Sun Peng shall hold office until the forthcoming annual general meeting pursuant to Article 83(3) of the Articles. All of the above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Directors' biographical details since the date of the Interim Report 2021 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

| | |
|---|---|
| Mr. Lau Wai Leung, Alfred | Mr. Lau has been appointed as an independent non-executive director of Xinming China Holdings Limited 新明中國控股有限公司, a company listed on the Main Board of the Stock Exchange (stock code: 2699), since 18 November 2021.<br><br>Mr. Lau resigned as an executive Director of Samson Paper Holdings Limited 森信紙業集團有限公司, a company listed on the Main Board of Stock Exchange (stock code: 731), since 26 January 2022. |
| Mr. Ding Zhigang | Mr. Ding has been appointed as a non-executive director of the Company with effect from 13 January 2022. |
| Mr. Ong King Keung | Mr. Ong has been appointed as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd. 昆明滇池水務股份有限公司, a company listed on the Main Board of the Stock Exchange (stock code: 3768), since 12 November 2021. |

Save as disclosed above, the Company is not aware of other changes in the Directors' information which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

## PERMITTED INDEMNITY PROVISION

Under the Articles, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors during the year under review and up to the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year under review, no claims were made against the Directors.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang, independent non-executive Director, entered into a letter of appointment with the Company for an initial term of three years. Either the Company or the independent non-executive Director may give a three months' written notice to the other party for early termination of appointment.

Each of Mr. Yu Lu, Mr. Ding Zhigang and Mr. Sun Peng, non-executive Director, entered into a letter of appointment with the Company for an initial term of three years. Either the Company or the non-executive Director may give a three months' written notice to the other party for early termination of appointment.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Schemes" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year under review.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 45 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

## CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Use of proceeds - (iii) Use of proceeds from the Subscriptions" in this section and Note 30 to consolidated financial statements, no controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year under review.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 19 to the consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As of 31 December 2021, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules, were as follows:

| Name of Director | Relevant company | Nature of interest | Number of Shares in the relevant company (Note 1) | Approximate Percentage* of interest |
|---|---|---|---|---|
| Mr. Yue Jingxing | The Company | Interest in a controlled corporation (Note 2 (i)) | 93,543,624 (L) | 5.3% |
| | | Beneficial owner (Note 2(ii)) | 856,555 (L) | 0.05% |
| Mr. Yu Lu | The Company | Beneficial owner (Note 3) | 172,522,500 (L) | 9.7% |

* The percentage represents the number of shares/underlying shares involved divided by the number of the issued Shares as of 31 December 2021.

Notes:

(1) The letter "L" denotes the Directors' long position in the Shares.

(2) Mr. Yue is the sole shareholder of Seashore Fortune Limited ("**Seashore Fortune**") which holds 93,543,624 Shares. By virtue of the SFO, Mr. Yue is deemed to be interested in the Shares in which Seashore Fortune is interested. The disclosed interest represents (i) the interest in the Company held by Seashore Fortune; and (ii) options held by Mr. Yue under the Pre-IPO Share Option Scheme adopted by the Company on 25 August 2016 (the "**Pre-IPO Share Option Scheme**").

(3) Mr. Yu Lu is a non-executive Director.

(4) The total issued shares of the Company was 1,775,908,606 Shares as of 31 December 2021.

Save as disclosed above, as of 31 December 2021, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As of 31 December 2021, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executives of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name of Shareholder | Nature of interest | Number of Shares (Note 1) | Approximate Percentage* of Company's issued share capital |
|---|---|---|---|
| Seashore Fortune | Beneficial owner | 93,543,624 (L) | 5.3% |
| Mr. Wang Shiguang | Interest of spouse (Note 2) | 97,527,845 (L) | 5.5% |
| Ms. Chen Junling | Interest in a controlled corporation (Note 2) | 97,527,845 (L) | 5.5% |
| Magical Success Holdings Limited ("**Magical Success**") | Beneficial owner (Note 2) | 97,527,845 (L) | 5.5% |
| SB Asia Investment Fund II L.P. ("**SAIF**") | Beneficial owner (Notes 3 & 4) | 197,340,537 (L) (Note 7) | 11.1% |
| SAIF II GP L.P. | Interest in a controlled corporation (Note 3) | 197,340,537 (L) (Note 7) | 11.1% |
| SAIF Partners II L.P. | Interest in a controlled corporation (Note 3) | 197,340,537 (L) (Note 7) | 11.1% |
| SAIF II GP Capital Ltd. | Interest in a controlled corporation (Note 3) | 197,340,537 (L) (Note 7) | 11.1% |
| Mr. Andrew Y. Yan | Interest in a controlled corporation (Note 3) | 197,340,537 (L) (Note 7) | 11.1% |
| Cisco System, Inc | Interest in a controlled corporation (Note 4) | 197,340,537 (L) (Note 7) | 11.1% |
| Software Research Associates, Inc. ("**SRA**") | Beneficial owner (Notes 5 & 6) | 232,500,000 (L) (Note 7) | 13.1% |
| SRA Holdings, Inc. ("**SRA Holdings**") | Interest in a controlled corporation (Notes 5 & 6) | 232,500,000 (L) (Note 7) | 13.1% |
| Spitzer Fund VI L.P. | Beneficial owner | 123,763,311 (L) (Note 7) | 7.0% |
| Mr. Ding Zhigang | Beneficial owner (Note 8) | 340,700,925 (L) | 19.2% |

* The percentage represents the number of Shares/underlying Shares involved divided by the number of the issued Shares as of 31 December 2021.

Notes:

(1) The letter "L" denotes the person's or corporation's long position in the Shares.

(2) Ms. Chen Junling is the sole shareholder of Magical Success which held 97,527,845 Shares. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested. Furthermore, Mr. Wang Shiguang, the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen's interest in the Company by virtue of the SFO.

(3) SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., a limited partnership established in the Cayman Islands, whose general partner is SAIF Partners II L.P., a limited partnership established in the Cayman Islands. The general partner of SAIF Partners II L.P. is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan. By virtue of the SFO, SAIF II GP L.P., SAIF Partners II L.P., SAIF II GP Capital Ltd. and Mr. Andrew Y. Yan are deemed to be interested in the Shares in which SAIF is interested.

(4) Cisco Systems, Inc., being a limited partner of SAIF, holds 38.9% of equity interest in SAIF. By virtue of the SFO, Cisco Systems, Inc. is deemed to be interested in the Shares in which SAIF is interested.

(5) These 232,500,000 Shares represented (i) 45,000,000 Shares directly held by SRA and (ii) 187,500,000 Shares which may be allotted and issued to SRA upon the exercise of the conversion rights attaching to the Convertible Bonds for the aggregate principal amount of HK$150,000,000 at the adjusted conversion price of HK$0.80 per conversion share. The exercise of the conversion rights attaching to the Convertible Bonds is subject to the terms and conditions thereof.

(6) SRA is wholly owned by SRA Holdings. By virtue of the SFO, SRA Holdings is deemed to be interested in the Shares in which SRA is interested.

(7) Based on the disclosure of interests forms submitted by these substantial shareholders respectively as of 31 December 2021.

(8) Mr. Ding has been appointed as a non-executive director of the Company with effect from 13 January 2022.

(9) The total issued shares of the Company was 1,775,908,606 Shares as of 31 December 2021.

Save as disclosed above, as of 31 December 2021, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## EQUITY-LINKED AGREEMENT

During the year under review, save for the Convertible Bonds and the Share Option Schemes as set out in the paragraph headed "Share Option Schemes" of this Directors' Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year under review. Please refer to the section headed "Management Discussion and Analysis" and notes 40 and 41 to the consolidated financial statements for further information about the Convertible Bonds and the Share Option Schemes.

## SHARE OPTION SCHEMES

### Share Option Scheme

As disclosed in the prospectus of the Company dated 29 May 2017 (the "**IPO Prospectus**") the Company adopted a share option scheme (the "**Share Option Scheme**") on 16 May 2017. The purpose of the Share Option Scheme is to enable the Company to grant share options to selected participants as incentives for their contribution to the Group. All Directors, employees, suppliers, customers, persons that, among others, contributed to the development and performance of the Group, advisers or consultants of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing from 9 June 2017. The remaining life of the Share Option Scheme was approximately 5 years as at 31 December 2021.

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on 9 June 2017, being 80,000,000 Shares (the "**Scheme Limit**"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). As at the date of this Directors' Report, the total number of Shares available for allotment and issue pursuant to the exercise of options granted under the Share Option Scheme was 6,843,811 Shares, representing about 0.39% of the issued share capital of the Company. As at the date of this Directors' Report, the Board may renew the Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

Notwithstanding the foregoing, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of the Company but subsequently cancelled) to each participant in any 12-month period shall not exceed 1% of the Shares in issue as at the date of the grant.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HKD1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years commencing from 9 June 2017. A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a Share.

Details of movements of the options granted under the Share Option Scheme during the year under review are as follows:

## Employees

| Date of grant | Vesting date | Exercisable period | Outstanding as at 31 December 2020 | Exercise Price per Share HKD* | During the year under review: Granted | Exercised | Cancelled | Lapsed | Adjustments due to Rights Issue* HKD | Outstanding as at 31 December 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 3 September 2018 | 3 September 2020 | From 3 September 2020 to 2 September 2026 | 3,276,668 | 1.724 | – | – | – | (976,667) | (18,731) | 2,281,270 |
| 3 September 2018 | 3 September 2021 | From 3 September 2021 to 2 September 2026 | 3,276,668 | 1.724 | – | – | – | (976,667) | (18,731) | 2,281,270 |
| 3 September 2018 | 3 September 2022 | From 3 September 2022 to 2 September 2026 | 3,276,664 | 1.724 | – | – | – | (976,666) | (18,727) | 2,281,271 |
| **Total** | | | **9,830,000** | | **-** | **-** | **-** | **(2,930,000)** | **(56,189)** | **6,843,811** |

*note: the exercise price of and the number of Shares entitled to be subscribed for under the outstanding share options have been adjusted following the completion of 1-for-2 rights issue of the Company on 17 December 2021.

No share option was granted to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or an associate (as defined in the Listing Rules) of any of them under the Share Option Scheme during the year under review. 2,930,000 share options were lapsed as the relevant employees resigned during the exercisable period as specified. 56,189 share options were subject to adjustments as a result of the Rights Issue.

Save as disclosed above, no other share options under the Share Option Scheme were exercised, cancelled or lapsed during the year under review.

## Pre-IPO Share Option Scheme

As disclosed in the IPO Prospectus, the Company adopted the Pre-IPO Share Option Scheme on 25 August 2016 and granted options to subscribe for an aggregate of 771,680 Shares. Immediately following the completion of the Capitalization Issue (as defined in the IPO Prospectus), the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme increased from 495,180 Shares to 16,210,417 Shares. The purpose of the Pre-IPO Share Option Scheme is to recognize the contribution that certain parties made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except for the following principal terms:

(a) the exercise price per Share shall not be less than the par value of such Share. Subject to the preceding sentence, the Board shall determine the exercise price at its sole discretion;

(b) the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme immediately following completion of the Capitalization Issue and the Global Offering (as defined in the IPO Prospectus) is 16,210,417 Shares, representing approximately 2.03% of the issued share capital of the Company immediately upon completion of the Capitalization Issue and the Global Offering and taking no account of any shares which may be allotted and issued pursuant to the exercise of the Over-allotment Options (as defined in the IPO Prospectus) or the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme;

(c) the eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of the Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries;

(d) the conditions which the Board may in its absolute discretion to consider (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before an option can be exercised) as it may think fit; and

(e) except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange.

HKD1.00 was payable by each grantee as consideration for grant of the options.

The Pre-IPO Share Option Scheme will remain in force for a period of 10 years commencing from 25 August 2016. The remaining life of the Pre-IPO Share Option Scheme was approximately 4 years as at 31 December 2021.

Details of movements of the options granted under the Pre-IPO Share Option Scheme during the year under review are as follows:

## Director(s)

| Name of Director(s) | Date of grant | Exercisable period | Outstanding as at 31 December 2020 | Exercise Price per Share (Notes 1 & 2) USD | During the year under review Granted | Exercised | Cancelled | Adjustments due to Rights Issue (Note 2) | Lapsed | Outstanding as at 31 December 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mr. Yue Jingxing | 25 August 2016 | From 25 August 2016 to 25 March 2024 | 863,587 | 0.000302 | – | – | – | (7,032) | – | 856,555 |
| | **Total** | | **863,587** | | **-** | **-** | **-** | **(7,032)** | **-** | **856,555** |

Notes:

(1) Calculated based on the aggregate exercise price of the options granted under the Pre-IPO Share Option Scheme divided by the number of Shares to be subscribed upon full exercise of such options.

(2) The exercise price of and the number of Shares entitled to be subscribed for under the outstanding share options have been adjusted following the completion of 1-for-2 rights issue of the Company on 17 December 2021.

No further options were granted under the Pre-IPO Share Option Scheme on or after 9 June 2017 as the right to do so terminated on 9 June 2017.

Save as disclosed above, no other Pre-IPO Share Options were exercised, cancelled or lapsed during the year under review.

## RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 16 to the consolidated financial statements.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non- executive Directors are independent.

## RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 45 to the consolidated financial statements. Transaction as set out in note 45(a) to the consolidated financial statements constitutes a continuing connected transaction of the Group during the year under review which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as such, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the Group's business were entered into during the year under review or subsisted at the end of the year under review.

## 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.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Shares during the year under review.

## MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major suppliers and customers during the year under review are set out below:

During the year under review, the Group's largest customer accounted for approximately 36.9% (2020: approximately 41.5%) of the total revenue of the Group and the aggregated revenue attributable to the five largest customers accounted for approximately 74.0% (2020: approximately 70.0%) of the total revenue of the Group.

During the year under review, the Group's largest supplier (including outsourced service provider) accounted for approximately 31.4% (2020: approximately 13.7%) and the aggregated purchases (including outsourced service fees) attributable to the Group's five largest suppliers (including outsourced service providers) accounted for approximately 64.7% (2020: approximately 49.1%) of the total purchases (including outsourced service fees) of the Group.

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, there was a sufficient prescribed public float of the issued Shares under the Listing Rules.

## ISSUE FOR CASH OF EQUITY SECURITIES

During the year under review, the Company has conducted/completed the following fund-raising activities for cash:

| Date of announcement/ circular/prospectus | Event | Number of Shares and issue/ conversion price (approximate) | Net proceeds and net price per Share (approximate) | Closing price on the date of signing of the Subscription agreement per Share | Intended use of proceeds as announced | Actual use of proceeds |
|---|---|---|---|---|---|---|
| 25 January 2021, 11 February 2021, 2 March 2021, 31 March 2021, 31 May 2021 | Subscription of new shares by a connected person | 403,000,000 Subscription Shares at the Subscription Price of HK$0.24 per Subscription Share for an aggregate amount of HK$96,720,000. | HK$96.0 million; and the net price is HK$0.24 | HK$0.202 | To set off against part of the outstanding principal amount and interests repayable by the Company under the Promissory Notes. | As the conditions for the Subscription Completion have not been fulfilled by 31 May 2021 (i.e. the Subscription Longstop Date), the Subscription Agreement has lapsed and the Subscription will not proceed. |
| 25 January 2021, 11 February 2021, 2 March 2021, 31 March 2021, 31 May 2021 | Placing Agreement | 347,000,000 Shares at a price of HK$0.24 per Placing Share for an aggregate amount of HK$83,280,000. | HK$82.5 million; and the net price is HK$0.24 | HK$0.202 | Be partially used for full settlement of the remaining outstanding principal of the Promissory Notes after the set-off as mentioned above, and the remaining net proceeds, if any, to be used for general working capital purposes. | As the conditions for the Placing Completion have not been fulfilled by 31 May 2021 (i.e. the Placing Longstop Date), the Placing Agreement has lapsed and the Placing will not proceed. |
| 12 July 2021, 27 July 2021 | Subscription of new shares under general mandate | 197,320,000 Subscription Shares at the Subscription Price of HK$0.170 per Subscription Share for an aggregate amount of HK$33,544,400. | HK$33.3 million; and the net price is HK$0.169 | HK$0.176 | Repayment of outstanding indebtedness of the Group to lower its gearing ratio | All net proceeds have been used as intended. |
| 19 October 2021, 25 November 2021, 16 December 2021 | Rights Issue | 591,969,535 Rights Shares and not more than 688,517,997 Rights Shares at a price of HK$0.208 per Rights Share. | HK$121.1 million; and the net price is HK$0.205 | HK$0.209 | (1) for the full settlement of the outstanding principal and accrued interests of the Promissory Notes; and (2) for the settlement of other outstanding indebtedness and trade and other payables of the Group. | All net proceeds have been used as intended. |

## USE OF PROCEEDS

### (i) Use of proceeds from Initial Global Offering after the Re-allocation made as of 3 July 2019

References are made to the announcements of the Company dated 8 June 2017, 21 June 2017 and 3 July 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 IPO prospectus) was approximately HKD158.2 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 "**Re-allocation**"). For details of the Re-allocation, please refer to the announcement of the Company dated 3 July 2019 (the "**2019 Announcement**").

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

**From Initial Global Offering after the Re-allocation made as of 3 July 2019**

| | Original Planned use of net proceeds HKD'million | Re-allocation on 3 July 2019 HKD'million | Amount utilised as at 31 December 2021 HKD'million | Unutilised net proceeds as at 31 December 2021 HKD'million |
|---|---|---|---|---|
| Research and development of the PLC technology | 95.7 | (37.8) | 52.1 | 5.8 |
| Sales and marketing | 32.0 | (6.9) | 13.0 | 12.1 |
| 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 | 27.7 | 17.0 |
| | 158.2 | – | 123.3 | 34.9 |

### (ii) Further change in use of proceeds from Initial Global Offering

References are made to the announcement of the Company dated 12 July 2021 in relation to the subscriptions of new shares ("**Subscriptions**") under general mandate (the "**GM Subscription Announcement**") and the prospectus of the Company dated 25 November 2021 in relation to the Rights Issue (the "**Rights Issue Prospectus**"). Unless otherwise defined, capitalized terms used in this report shall have the same meanings as defined in the GM Subscription Announcement and the Rights Issue Prospectus.

As disclosed in the 2019 Announcement, the Company planned to apply approximately HK$35.7 million for repayment of interest expenses as incurred by the promissory notes issued to Sailen International IOT Limited (formerly known as Tiger Resort, Leisure and Entertainment, Inc.) ("**Sailen IOT**") in relation to acquisition of Green Harmony. As at 30 June 2021, the Company has utilised approximately HK$18.7 million for such purpose and a balance of approximately HK$17.0 million remained unutilised (the "**Unutilised Balance**").

Pursuant to the completion of the Subscriptions in July 2021 and the completion of the Rights Issue in December 2021, the Company raised net proceeds of approximately HK$33.3 million and HK$121.1 million, respectively. Those net proceeds had been applied for full settlement of the outstanding principal and accrued interests of the promissory notes (as amended and replaced) issued by Company to Sailen IOT as part of the consideration for the acquisition of Green Harmony, comprising (i) the first promissory note dated 25 November 2019 for the principal amount of HK$20 million carrying 4% coupon rate per annum from 25 November 2019 and due on 14 August 2021; and (ii) the second promissory note dated 25 November 2019 for the principal amount of approximately HK$122.9 million carrying 4% coupon rate per annum from 25 November 2019 and due on 30 December 2021 (collectively, the "**Promissory Notes**"). As such, the Company intends to update the use of the Unutilised Balance for the following purposes ("**Proposed Change**"):

(i) approximately HK$3.0 million for repayment of interest expenses incurred by the Convertible Bonds; and

(iii) approximately HK$14.0 million for working capital and general corporate purposes.

Based on the above change, the further revised use of net proceeds from Initial Global Offering is set out as follows:

| | | Original planned use of net proceeds as stated in the IPO Prospectus HK$'million (approximately) | Revised allocation of the unutilised net proceeds as disclosed in the 2019 Announcement HK$'million (approximately) | Utilised net proceeds up to the date of this report HK$'million (approximately) | Unutilised net proceeds up to the date of this report HK$'million (approximately) | Further revised allocation of the unutilised net proceeds HK$'million (approximately) |
|---|---|---|---|---|---|---|
| (a) | **Research and development of the PLC technology** | | | | | |
| | — development of intellectual properties | 48.3 | 16.3 | 11.2 | 5.1 | 5.1 |
| | — possible mergers and acquisitions of technology and/or research companies | 23.7 | – | – | – | – |
| | — recruitment of research and development staff | 23.7 | 7.0 | 6.3 | 0.7 | 0.7 |
| | | 95.7 | 23.3 | 17.5 | 5.8 | 5.8 |
| (b) | **Sales and marketing** | | | | | |
| | — cultivating relationships with possible sales channels | 16.2 | 12.7 | 1.0 | 11.7 | 11.7 |
| | — undertaking an increasing number of pilot projects for smart energy management business | 7.9 | – | – | – | – |
| | — recruitment of sales and marketing staff | 7.9 | 3.8 | 3.4 | 0.4 | 0.4 |
| | | 32.0 | 16.5 | 4.4 | 12.1 | 12.1 |
| (c) | **Repayment of an entrusted bank loan** | 14.7 | – | – | – | – |
| (d) | **Working capital and general corporate purposes** | 15.8 | – | – | – | 14.0 |
| (e) | **Repayment of interest expenses** | | | | | |
| | — promissory notes issued to Sailen International IOT Limited (formerly known as Tiger Resort Leisure and Entertainment, Inc.) in relation to acquisition of Green Harmony | – | 35.7 | 18.7 | 17.0 | – |
| | — convertible bonds issued on 13 August 2018 | – | 9.0 | 9.0 | – | 3.0 |
| | | – | 44.7 | 27.7 | 17.0 | 3.0 |
| | | 158.2 | 84.5 | 49.6 | 34.9 | 34.9 |

The Proposed Change is to allow the Group to (i) reduce the gearing ratio; (ii) give the Board a greater flexibility on internal resources allocation and use of cash; and (iii) provide a better cash resources allocation and strategic planning of the Group on working capital allocation. This will be beneficial to the Group, especially considering that, the outbreak of the Pandemic have affected the business and economic activities around the world and have brought about additional uncertainties to the Group ' s operating environment and have impacted the Group's operations and financial position. Faced with further hamper and uncertainties on China's economy caused by, among others, ad hoc Pandemic, the priority of the Group remains to be the maintenance of a healthy financial and liquidity position and the implementation of a lean-cost strategy so as to reduce the operating cost. The Board is of the view that maintaining additional working capital and enhancing capital management is essential to respond to any market fluctuations and the challenging economic environment ahead. Against such backdrop, the Board decided that the Unutilised Balance will be applied for settlement of interest expenses from the Convertible Bonds and replenishment of working capital of the Group.

The Board believes that the Proposed Change will enable a better utilisation of the Unutilised Balance and it will not have any material adverse effect on the existing business and operation of the Group and is in the best interests of the Company and its shareholders as a whole.

The Board will continuously assess the plan for the use of the unutilised net proceeds and may revise or amend such plan when necessary to cope with the changing market conditions, and strive for better business performance of the Group.

The remaining unutilised net proceeds as at the date of this report 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 27 July 2021 in relation to the completion of Subscriptions.

On 12 July 2021, the Company entered into the Subscription Agreements with each of Mr. Ding Zhigang and Mr. Yu Lu, respectively, pursuant to which (i) Mr. Ding conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 88,660,000 Subscription Shares; and (ii) Mr. Yu conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 108,660,000 Subscription Shares. The Subscription Share was ordinary share of HK$0.0001 each in the share capital of the Company. Completion of the Subscription took place on 27 July 2021.

The Subscription Price is HKD0.170 per Subscription Share for an aggregate amount of HK$33,544,400 with an aggregate nominal value of HKD19,732. The closing price per Share as quoted on the Stock Exchange on 12 July 2021, being the date of the Subscription Agreements, was HKD0.176. The aggregated net proceeds derived from the Subscriptions were approximately HKD33.3 million and the net issue price per Subscription Share was approximately HK$0.169.

The reasons for the Subscriptions was to raise funds for the Group to repay its then outstanding indebtedness in order to lower the gearing ratio of the Group. During the year under review, the net proceeds had been fully applied for the partial settlement of the outstanding principal and accrued interests of the Promissory Notes in accordance with the proposed intentions as set out in the GM Subscription Announcement.

## (iv) Use of proceeds from the Rights Issue

References are made to the announcement of the Company dated 19 October 2021 and 16 December 2021 and the Rights Issue Prospectus in relation to the Rights Issue.

On 19 October 2021, Maxa Capital Limited and Sorrento Securities Limited , the Joint Underwriters, and the Company entered into an Underwriting Agreement pursuant to which the Joint Underwriters agreed to, on a best-effort basis, subscribe or procure the subscription for up to 591,969,535 Rights Shares based on the portion of the Underwritten Shares as specified in the Underwriting Agreement. The Rights Issue was on the basis of one Rights Share for every two existing ordinary share of HK$0.0001 each in the share capital of the Company held by the Shareholders on the Record Date. The Subscription Price was HKD0.208 per Rights Share. The closing price per Share as quoted on the Stock Exchange on 19 October 2021, being the date of the Underwriting Agreement, was HKD0.209.

As at 4:00 p.m. on Thursday, 9 December 2021, being the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares, a total of 15 valid acceptances and applications had been received for a total of 316,467,028 Rights Shares. Based on the result of acceptances and applications and pursuant to the terms of the Underwriting Agreement, the Joint Underwriters procured subscribers to subscribe for 275,502,507 Rights Shares. On 17 December 2021, the Company allotted and issued 591,969,535 Rights Shares pursuant to the Rights Issue. The aggregate nominal value of the 591,969,535 Rights Shares was approximately HKD59,196.95. The aggregated net proceeds derived from the Rights Issue were approximately HKD121.1 million and the net issue price per Rights Share was approximately HK$0.205.

The reasons for the Rights Issue was to allow the Group to fully settle the Promissory Notes and other outstanding indebtedness as appropriate. During the year under review, the net proceeds had been fully applied for (i) full settlement of the outstanding principal and accrued interests of the Promissory Notes; and (ii) settlement of other outstanding indebtedness and trade and other payables of the Group in accordance with the proposed intentions as set out in the Rights Issue Prospectus.

## 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 2021, the Group had an aggregate of 163 employees (as at 31 December 2020: 177 employees). The Group recruited and promoted individual persons according to their capabilities and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and prevailing market salary scale.

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

## CLOSURE OF REGISTER OF MEMBERS FOR THE 2022 AGM

The register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022 (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 Friday, 24 June 2022 (the "**2022 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2022 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 20 June 2022.

## EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2021 and up to the date of this report.

## FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years are set out on page 158 of this report.

## AUDIT COMMITTEE

The Audit Committee has discussed with the management of the Group and reviewed this report and 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.

## AUDITOR

The financial statements for the year ended 31 December 2021 have been audited by RSM Hong Kong. KPMG resigned as auditors of the Company with effect from 7 December 2020. RSM Hong Kong was appointed as auditor of the Company with effect from 7 December 2020 to fill the casual vacancy and was re-elected as the auditor of the Company at the annual general meeting of the Company held on 25 June 2021. A resolution will be submitted to the 2022 AGM to re-appoint RSM Hong Kong as auditor of the Company.

On behalf of the Board

**Yue Jingxing**
*Chairman and Executive Director*

Hong Kong, 29 March 2022

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

Save for the deviation from the code provisions A.6.7 and E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provisions A.6.7 and E.1.2 of the CG Code stipulates that independent non-executive directors and other non-executive directors, and the chairman of the Board, should attend annual general meeting. The chairman of the Board should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The previous chairman of the Board, Mr. Cheung Fan, the previous non-executive Director, Ms. Pan Hong and two independent non-executive Directors Mr. Ong King Keung and Mr. Zou Heqiang, did not attend the annual general meeting held on 25 June 2021 due to other business commitments. However, Mr. Lau Wai Leung, Alfred, the executive director of the Company, took the chair of that meeting and 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.

## DIRECTORS' SECURITIES TRANSACTIONS

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 the Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's Code throughout the year under review.

The Company has also extended the coverage of the Model Code adoption to the senior management of the Company who are likely to be in possession of unpublished inside information of the Company (the "**relevant employees**"). No incident of non-compliance of the Model Code by the relevant employees was noted by the Company throughout the year under review.

## BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

### Board Composition

The Board comprises of the following Directors during the year under review and up to the date of this report:

**Executive Directors**
Mr. Yue Jingxing *(Chairman and Member of Remuneration Committee)*
Mr. Lau Wai Leung, Alfred *(appointed on 19 January 2021)*
Mr. Jiang Feng *(appointed on 19 April 2021)*
Mr. Tang Andong *(resigned on 7 April 2021)*

**Non-executive Directors**
Mr. Cheung Fan *(Member of Nomination Committee)*
Mr. Yu Lu *(appointed on 9 September 2021)*
Mr. Ding Zhigang *(appointed on 13 January 2022)*
Mr. Wang Shiguang *(retired on 25 June 2021)*
Ms. Pan Hong *(retired on 25 June 2021)*
Mr. Zhou, Francis Bingrong *(resigned on 19 January 2021)*

**Independent Non-executive Directors**
Mr. Ong King Keung *(Chairman of Audit Committee and Remuneration Committee, and Member of Nomination Committee)*
Ms. Lo Wan Man *(Member of Audit Committee, Remuneration Committee and Chairman of Nomination Committee)*
Mr. Zou Heqiang *(Member of Audit Committee)*

The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 12 to 16 of this annual report. None of the members of the Board is related to one another.

## Chairman and Chief Executive Officer

The roles of the chairman and Chief Executive Officer ("**CEO**") should be served by different individuals to achieve a balance of authority and power. The main responsibility of the chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the CEO is responsible for the day- to-day management of the Company and its subsidiaries' business, recommending strategies to the Board, and determining and implementing operational decisions. Mr. Yue Jingxing is currently the Chairman of the Company. None of the Directors act as the CEO of the Company. The Board is in the course of identifying a suitable candidate as the CEO of the Company and will make further announcement upon the appointment of the position.

## Independent Non-executive Directors

Throughout the year under review and up to the date of this report, the Company has complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of their independence pursuant to the requirements of Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

## Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors), are appointed for a specific term of three years.

The Articles provides that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment.

Under the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

## Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

## Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the year under review and up to date of this report are summarized as follows:

| **Directors** | **Type of Training (Note)** |
|---|---|
| *Executive Directors* | |
| Mr. Yue Jingxing *(appointed as Chairman on 5 July 2021)* | A |
| Mr. Lau Wai Leung, Alfred *(appointed on 19 January 2021)* | A & B |
| Mr. Jiang Feng *(appointed on 19 April 2021)* | A |
| *Non-Executive Directors* | |
| Mr. Cheung Fan | A |
| Mr. Yu Lu *(appointed on 9 September 2021)* | A |
| Mr. Ding Zhigang *(appointed on 13 January 2022)* | N/A |
| *Independent Non-Executive Directors* | |
| Mr. Ong King Keung | A |
| Ms. Lo Wan Man | A & B |
| Mr. Zou Heqiang | A |

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

## BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

### Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Ong King Keung (chairman), Ms. Lo Wan Man and Mr. Zou Heqiang.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The duties of the Audit Committee include, without limitation, (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring the integrity of the financial statements and annual report and accounts, and the interim report, and reviewing significant financial reporting judgments contained therein; (c) reviewing the financial control, risk management and internal control systems; and (d) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

The Audit Committee held two meetings to review, in respect of the year under review, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, engagement of non-audit services and relevant scope of work, arrangements for employees to raise concerns about possible improprieties and to recommend the appointment of new external auditor.

The Audit Committee also met the external auditor without the presence of the executive Directors. There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

### Remuneration Committee

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Ong King Keung (chairman) and Ms. Lo Wan Man, and one executive Director namely Mr. Yue Jingxing.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include (a) making recommendations to the Board on the Company's policy and structure for all Directors' and senior management and establishing a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving the management's remuneration proposal with reference to the Board's corporate goals and objectives; and (c) making recommendations to the Board on the remuneration packages of individual Directors and senior management.

The Remuneration Committee held two meetings during the year under review to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

Details of the annual remuneration of the members of the senior management by band for the year under review are set out below:

| Remuneration band (HKD) | Number of individuals |
|---|---|
| HKDnil–HKD500,000 | – |
| HKD500,001–HKD1,000,000 | 3 |
| HKD1,000,001–HKD1,500,000 | 1 |
| HKD1,500,001–HKD2,000,000 | – |

Details of the remuneration of each Director for the year under review are set out in note 15 to the consolidated financial statements.

The Remuneration Committee also considered and made recommendations to the Board on the terms of letters of appointment and the remuneration of new executive Director and non- executive Directors appointed during the year under review and up to date of this report, and the revision of remuneration of the previous chairman of the Board, Mr. Cheung Fan.

## Nomination Committee

The Nomination Committee consists of two independent non-executive Directors, namely Ms. Lo Wan Man (chairman), Mr. Ong King Keung and one non-executive Director, namely Mr. Cheung Fan.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The Company has complied with the requirements under Code Provision A.5.1.

The principal duties of the Nomination Committee include, without limitation, (a) reviewing the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy; (b) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of the independent non-executive Directors; and (d) making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive officer.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee held four meetings to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting. The Nomination Committee also considered and recommended to the Board on the appointment of executive Directors and non-executive Directors, and the change of chairman of the Board, during the year under review.

## Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

## Director Nomination Policy

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures and process for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year under review, the Nomination Committee adhered to the following nomination procedures and the process set out in the Director Nomination Policy to select and recommend candidates for directorship:

**(a) Appointment of new Director**

(i) Upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, the Nomination Committee should, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

**(b) Re-election of Director at General Meeting**

(i) The Nomination Committee should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.

(ii) The Nomination Committee should also review and determine whether the retiring Director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

During the year under review, there were some changes in the composition of the Board. Details are set out in Directors' Report. The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

## Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year under review, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

Board meetings should be held at least four times a year at approximately quarterly intervals, involving active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present.

Apart from Board meetings, the Chairman also held meetings with non-executive Directors without the presence of other Directors during the year under review.

The attendance record of each Director at meetings is set out in the table below:

| | Attendance/Number of Meetings | | | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **2021 AGM** | **2021 EGM** |
| Mr. Yue Jingxing *(appointed as Chairman on 5 July 2021)* | 13/14 | N/A | 2/2 | N/A | 1/1 | 1/1 |
| Mr. Lau Wai Leung, Alfred *(appointed on 19 January 2021)* | 12/12 | N/A | N/A | N/A | 1/1 | 1/1 |
| Mr Jiang Feng *(appointed on 19 April 2021)* | 6/6 | N/A | N/A | N/A | 1/1 | 1/1 |
| Mr. Tang Andong *(resigned on 7 April 2021)* | 4/7 | N/A | N/A | N/A | N/A | N/A |
| Mr. Cheung Fan | 7/14 | N/A | N/A | 2/4 | 0/1 | 0/1 |
| Mr Yu Lu *(appointed on 9 September 2021)* | 2/2 | N/A | N/A | N/A | N/A | 1/1 |
| Mr. Ding Zhigang *(appointed on 13 January 2022)* | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Wang Shiguang *(retired on 25 June 2021)* | 7/8 | N/A | N/A | N/A | 1/1 | N/A |
| Ms. Pan Hong *(retired on 25 June 2021)* | 8/8 | N/A | N/A | N/A | 0/1 | N/A |
| Mr. Zhou Francis Bingrong *(resigned on 19 January 2021)* | 0/2 | N/A | N/A | N/A | N/A | N/A |
| Mr. Ong King Keung | 11/14 | 2/2 | 2/2 | 4/4 | 0/1 | 0/1 |
| Ms. Lo Wan Man | 14/14 | 2/2 | 2/2 | 4/4 | 1/1 | 1/1 |
| Mr. Zou Heqiang | 12/14 | 2/2 | N/A | N/A | 0/1 | 1/1 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledged their responsibility for overseeing the risk management and internal control systems of the Group and for reviewing its effectiveness and adequacy.

In order to safeguard the Group's assets, effectiveness of business operation, ensure the reliability of financial report that the Company employs in its business or releases to the public and ensure compliance with relevant laws and regulations, the Company has established the risk management and internal control systems and conducts regular reviews of the effectiveness of such systems through the Audit Committee, executive management, functional departments, external advisers and external auditor. The risk management and internal control systems are designed to manage rather than eliminate the risk to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has developed and adopted different risk management procedures and guidelines with defined authority. All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial process, regulatory compliance and information security. The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress. The management monitors the assessment of the risk management and internal controls and reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems. The internal audit function of the Group examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

In reviewing the risk management and internal control systems by the Board, the Group has further engaged an external professional firm in view of facilitating the internal audit function. The professional firm is arranged to conduct internal audit on the Group every six months (who reports to the Audit Committee) with a view to facilitating adequate resources and quality review to satisfy the Group's internal audit function as required by the Stock Exchange and to assist the Board in identifying and assessing the risks through a series of interviews, and perform semi-annual reviews on the effectiveness of the Group's internal control systems. The reviews cover material controls including financial, operational and compliance controls at entity and operational levels. The Audit Committee and the Board have discussed and reviewed the relevant results of the review. The Group will continuously enhance its risk management and internal control systems according to findings therein and recommendations made to the Group.

The Group has established procedures in handling and dissemination of inside information in an accurate, secure and timely manner and to avoid possible mishandling of inside information within the Group.

The risk management and internal control systems are reviewed and assessed on an on-going basis by the Audit Committee and the Board, and will be further reviewed and assessed at least once each year by the Board.

Based on the risk management and internal control systems established and maintained by the Group, the internal audit findings, the reviews by external professional firm on internal audit of the Group, the review of the effectiveness of risk management and internal control systems performed by the management, respective Board Committees and the Board, the Board is of the view that the Group has maintained effective and adequate risk management and internal control systems during the year under review.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year under review.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 74 to 79.

## AUDITOR REMUNERATION

The independence of the external auditor is monitored by the Audit Committee which is primarily responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

The remuneration paid to the external auditor of the Company, RSM Hong Kong, in respect of audit and non-audit services provided to the Group during the year under review was analyzed below:

| Service Category | Fees paid/ payable RMB |
|---|---|
| Audit services | 2,080,000 |
| Non-audit services | 378,000 |
| | 2,458,000 |

## COMPANY SECRETARY

Mr. Lau Wai Leung, Alfred ("**Mr. Lau**"), the executive Director of the Company, has been appointed as the company secretary of the Company since 3 July 2020.

During the year under review, Mr. Lau has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by Directors on requisition of one or more Shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Company Secretary of the Company by mail to 4/F., Yue Thai Commercial Building, 128 Connaught Road Central, Sheung Wan, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

## Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

| | |
|---|---|
| Address: | 4/F., Yue Thai Commercial Building, 128 Connaught Road Central, Sheung Wan, Hong Kong<br>(For the attention of the Company Secretary) |
| Email: | ir@risecomm.com.hk |

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

# COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the 2021 AGM held on 25 June 2021, Directors (or their delegates as appropriate) were available to meet Shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles. An up to date version of the Company's Articles is also available on the website of the Company at www.risecomm.com.cn and the website of the Stock Exchange at www. hkex.com.hk.

## Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. Details are set out in Directors' Report.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

The Group is pleased to present the Environmental, Social and Governance Report (the "**Report**"). The purpose of the Report is to disclose to investors and other stakeholders the Group's strategies, policies and performance in the areas such as environmental protection, corporate management, talent training, supply chain management, social responsibility, social welfare undertakings in 2021.

## REPORTING PERIOD AND SCOPE

Information contained in this Report covers the period from 1 January 2021 to 31 December 2021, which is consistent with the financial year covered by the Group's Annual Report 2021. Its main business operation areas include its headquarters in Nanshan, Shenzhen, the PRC, and its offices in Beijing, Wuxi, Hunan and Hong Kong, China.

The Report is prepared in both Chinese and English versions. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

## BASIS OF PREPARATION

This Report is prepared in accordance with Appendix 27 of the Listing Rules — "Environmental, Social and Governance Reporting Guide" (the "**ESG Reporting Guide**") based on the principles of materiality, quantitative, balance and consistency, and has complied with the "comply or explain" provisions as set out in the Listing Rules. The data disclosed in this Report are from the Company's official documents and statistical report.

## REPORTING PRINCIPLES

The reporting principles of Materiality, Quantitative, and Consistency have been adopted as a basis for the preparation of the Environmental, Social and Governance ("**ESG**") Report.

### Materiality:

The Group has implemented a materiality assessment based on the effective engagement with its various stakeholders through different channels. The standardised assessment showed that ESG issues such as emission reduction, energy saving, and health and safety are highly important to the Group in its ESG management. Through this process, the Group pays particular attention to these issues to meet the expectations of stakeholders.

### Quantitative:

Quantitative reporting was primarily reflected under the environmental disclosure of greenhouse gas (GHG) emissions, treatment of exhaust gases, and in the section titled "Use of Resources" in this Report in terms of KPIs. The Group has applied this principle in reporting the Group's employment structure by age, gender, geographical area, and employee category in accordance with the social aspect of employment.

### Consistency:

The Group has adopted a consistent methodology and reporting framework to allow for meaningful comparisons over years.

## REPORTING BOUNDARY

The Report covers major operations and the administrative offices of the Group in Mainland China and Hong Kong. Its main business operation areas include its headquarters in Nanshan, Shenzhen, the PRC, and the offices in Beijing, Wuxi, Hunan, and Hong Kong, China. The Group believes this clear boundary can provide sufficient and relevant scope for the Report from the perspective of materiality.

## OBJECTIVE OF THE REPORT

The Group believes that the integration of ESG considerations into the Group's business operation has become an integral part of the Group's corporate development strategy. Meanwhile, it also focuses on fostering closer connection with its stakeholders, listening to their voices, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more social responsibilities, in order to seek continuous improvement.

## HOW TO OBTAIN THE REPORT

The Report is part of the Group's annual report and is available on the Group's website. For more information about the Group, please visit http://www.risecomm.com.cn.

## CONTACT METHOD

The Group attaches great importance to the valuable opinions of stakeholders and welcomes suggestions on the Report or on the Group's overall performance on sustainable development, please contact us by email at ir@risecomm.com.hk.

## ABOUT THE GROUP

The Group, is a high and new technology enterprise ("**HNTE**") which engages in scientific research, product development and the provision of technical services. The Group's headquarter is situated in Shenzhen, the PRC, with offices in Beijing, Wuxi, Hunan and Hong Kong, the PRC. The Group's production, R&D and sales businesses are mainly carried out by its various subsidiaries, namely Risecomm WFOE, Risecomm Beijing Comm, Risecomm Wuxi and Beijing Hongten Weitong Technology Co., Ltd.. As a high technology enterprise driven by R&D, Risecomm WFOE is honoured as a National HNTE, Shenzhen HNTE and National Integrated Circuit Design Enterprise.

Based on smart manufacturing, the Group uses the power line chip design as the source, and form the strategic layout of smart grid and smart energy management applications in parallel. With its advanced R&D strength and ample industry experience, the Group provides two major businesses to the market. Firstly, through Power Line Communication ("**PLC**") technology, the Group provides: (i) Automatic Meter Reading ("**AMR**") and other business including provision of design, development and sale of PLC-products, energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, and providing maintenance services in connection with the development and upgrading of AMR systems by power grid companies in the PRC; and (ii) Smart Manufacturing In Automotive ("**SMIA**") business including 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 petrochemical industries.

There are major changes in energy management and control and energy usage pattern in the PRC and even the world which presents huge social responsibility and development opportunities for energy conservation and emission reduction. The Group has stayed true to its original aspiration to actively fulfill its corporate social responsibility while achieving leapfrog development and sustained innovation, takes into account the various factors of sustainable development in the formulation and management of enterprise strategies and strives for a full understanding of the social and environmental impacts of measures and decisions before their implementation.

## GOVERNANCE STRUCTURE

### Board Statement

Environmental issues are of growing concern. In fact, climate change will be the most important challenge over the next decade. The Board is fully obliged to do its part to help. The Board has ultimate and overall responsibility for the Group's ESG strategy and reporting. The Board continues to steer the Group towards environmentally and socially responsible business through its governance structure and the maintenance of oversight over material ESG issues.

The governance structure has an ESG working group, comprised of professionals from various departments and led by a designated executive director, to collect and analyse data from operation level and market data; identify, prioritise and manage material ESG-related issues; and implement the relevant ESG policies in the Group. The designated executive director reports on material ESG matters to the Board for review and formulation of strategy through the merging of top-down approach and bottom-up approach.

The Board reviews the sustainability performance against ESG-related goals and targets which relate to its business annually to monitor and inform the Group's actions so as to reduce carbon footprint of the Group significantly within the next five years.

## STAKEHOLDERS ENGAGEMENT

In addition to tireless efforts taken in business operation in providing returns for shareholders and protecting investors' interests, the Group has maintained effective communication with relevant stakeholders through various channels and paid particular attention to their feedbacks, in order to get a better understanding of their expectation and areas of concerns, which allows the Group to make appropriate improvement and implementation so as to further improve sustainable development strategy and reinforce the Group's contribution to society.

| Stakeholders | Engagement Channels | Expectations |
|---|---|---|
| Government and Regulatory Authorities | — On-site inspection and checking<br>— Research through work conferences, work reports preparation and approval submission<br>— Information release on HKExnews and company's website, such as annual reports, interim reports and announcements | — Compliance with laws and regulations<br>— Making tax payment, conducting operation in accordance with laws, under government supervision and evaluation<br>— Participating in the formulation of industry standards<br>— Promoting economic development and employment |
| Shareholders and Investors | — Annual general meeting and other shareholder meetings<br>— Information release on HKExnews and company's website, such as annual reports, interim reports and announcements<br>— Meeting with investors and analysts | — Return on investment<br>— Information disclosure and transparency<br>— Protection of interests and fair treatment of shareholders |
| Employees | — Meetings<br>— Trainings, seminars and briefing sessions<br>— Cultural and sports activities<br>— Intranet and emails | — Protection of rights and interests of employees<br>— Comfortable working environment<br>— Career development opportunities and self-realization<br>— Occupational health and safety |
| Customers | — Websites and brochures<br>— Emails and customer service hotlines<br>— Feedback forms<br>— Regular meetings<br>— Industry exhibitions | — Safe and high-quality products<br>— Stable cooperation<br>— Information transparency<br>— Integrity<br>— Business ethics |
| Suppliers and Business Partners | — Regular meetings, supplier conferences, phone calls and interviews<br>— Review and assessment | — Long-term partnership<br>— Honest cooperation, fairness and openness<br>— Information resources sharing<br>— Quality of supply<br>— Reduction of business risks |
| Peer and Industry Associations | — Industry conferences and meetings<br>— Site visits and field trips | — Experience sharing<br>— Fair competition<br>— Cooperation |
| Society and the Public | — Volunteering activities<br>— Charity and social investment | — Community participation<br>— Social responsibilities<br>— Provision of career opportunities |

## MATERIALITY ASSESSMENT

On the basis of previous year's stakeholder survey, the Group conducted several communications with various stakeholder representatives in 2021, including group discussions, telephone interviews and so on, in order to understand the stakeholders' concerns and expectations. The Group believes that the annual stakeholder communication is to help enterprises identify priorities and important work contents in areas where improvement is needed. It also expects to understand what the Group needs to improve from the results of each communication, and give a more targeted response in the Report in order to continuously improve the Group's reputation.

The following table is a summary of the Group's material ESG issues contained in this Report:

| **ESG Reporting Guide** | **Material ESG Issues** | **Materiality to the Group** | | |
|---|---|---|---|---|
| **A. Environmental** | | **Low** | **Medium** | **High** |
| A1. Emissions | Harmful Exhaust Gas and Greenhouse Gas ("**GHG**") Emissions | ✓ | | |
| | Sewage Reduction | ✓ | | |
| | Hazardous and Non-hazardous Waste | ✓ | | |
| A2. Use of Resources | Energy Saving | | | ✓ |
| | Water Saving | | | ✓ |
| | Environmentally Friendly Packaging Materials | | ✓ | |
| A3. The Environment and Natural Resources | Assist Customers in Energy Saving and Emission Reduction | | | ✓ |
| | Creating a Green Office Environment | | | ✓ |
| | Supplier with Environmental Protection Concepts | | ✓ | |
| **B. Social** | | **Low** | **Medium** | **High** |
| B1. Employment | Protection of Employees Rights and Interests | | | ✓ |
| | Benefits and Rewards | | | ✓ |
| | Advocating Work-life Balance | | | ✓ |
| B2. Health and Safety | Safe Production | | | ✓ |
| | Occupational Health Training | | | ✓ |
| B3. Development and Training | Training Management | | | ✓ |
| B4. Labour Standards | Prevention of Child or Forced Labour | ✓ | | |
| B5. Supply Chain Management | Supply Chain Management | | | ✓ |
| | Transparent Procurement | | ✓ | |
| B6. Product Responsibility | Quality Control | | | ✓ |
| | Green Products | | | ✓ |
| | Intellectual Property Rights | | ✓ | |
| | Privacy Protection | | ✓ | |
| B7. Anti-corruption | Anti-corruption | | | ✓ |
| B8. Community Investment | Community Investment | | | ✓ |

The Group is a fabless R&D oriented PLC technology company specialized in the design, development and sale of proprietary PLC-related SOC IC, modules, devices and solutions. The Group adopts fabless production model, under which, instead of in-house manufacturing IC chipsets, it sources IC chipsets, as its main raw materials, from IC chipsets suppliers which provide ASICs based on its proprietary design it developed. Unlike general manufacturing enterprises, the Group assembles its products with the adoption of fabless production model, which greatly reduces the negative impacts on the environment during the course of operation and production.

## ENVIRONMENTAL PROTECTION

With the development of the world industrial revolution and the rapid development of economy and technology, human society has begun to enter a new era, but at the same time, our environment has suffered unprecedented damage. In the 21st century, environmental problems have become a severe challenge for the world. Therefore, the Group has always regarded environmental protection as a prerequisite for the steady development of enterprises, so it shoulders the important mission of "sustainable development" and strives to ensure the ultimate goal of legitimate and compliance operation. The Group respects and conserves nature, strictly complies with national laws, regulations and standards, takes the initiative to consider the impact of decision-making and activities on the environment as a whole, and strives to achieve a harmonious coexistence with the environment.

For the year ended 31 December 2021, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group, including but not limited to "Environmental Protection Law of the People's Republic of China" (中華人民共和國環境保護法), "Water Pollution Prevention Law of the People's Republic of China" (中華人民共和國水污染防治法), "Atmospheric Pollution Prevention and Control Law of the People's Republic of China" (中華人民共和國大氣污染防治法), "Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise" (中華人民共和國環境噪聲污染防治法) and "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" (中華人民共和國固體廢物污染環境防治法).

### Emissions

The Group has obtained the ISO14001 environmental management system certification, which indicates that its operation and management of R&D, production and sales have achieved internationally recognised standards. The Group has also formulated the Waste Management Policy to establish regulations and guidance on waste disposal and manage and monitor the effectiveness of targeted measures for different kinds of waste. Moreover, it acts in accordance with the "Control Procedures for Monitoring and Measurement of Environment, Occupational Health and Safety", and regularly engages inspection bodies to conduct accurate monitoring of emissions and provide monitoring reports, so as to keep abreast of the Group's performance in environmental protection and formulate measures for improvement.

For the year ended 31 December 2021, the Group did not receive any notice or warning on pollution in respect of its production, nor had the Group been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non- compliance with any environmental protection laws and regulations in the PRC.

**GHG emissions**

The Group's production activities mainly use electricity to maintain machine operation, general lighting and indoor temperature control etc. As such, the main source of its carbon emission is GHG generated from electricity consumption. Meanwhile, its products are energy-saving and environmentally-friendly. The Group has installed its self-developed air conditioner controllers and energy-saving control switches in all office areas and plants. Such on-site application allows backstage control of the usage of lighting and air-conditioners and thus effectively saves electricity resources. The Group has promoted this series of energy-saving products to its customers and have achieved the desired energy-saving effect.

The Group's direct GHG emissions (Scope 1) source from fuel consumption by the Group's vehicles which are mainly used in the provision of AMR maintenance services. During the year under review, in order to better align with the actual business usage and strengthen the control of operating costs, the Group disposed five vehicles. Therefore, the vehicle utilization rate has dropped as compared to 2020, resulting in the decrease in direct GHG emissions (Scope 1) by approximately 48% from 101.12 tCO2e in 2020 to 52.60 tCO2e in 2021.

The Group's indirect GHG emissions (Scope 2) source from purchased electricity in association with power consumption for the Group's operation. During the year under review, mainly due to the relocation of the Group's Shenzhen and Hong Kong head office and the downsizing of the Group's Wuxi office operation, the Group recorded a reduced consumption of purchased electricity as compared to 2020, resulting in the decrease in indirect GHG emissions (Scope 2) by approximately 1% from 103.63 $tCO_2e$ in 2020 to 102.38 $tCO_2e$ in 2021.

As a result, the Group's total GHG emissions have decreased by approximately 24% from about 204.75 $tCO_2e$ in 2020 to approximately 154.98 $tCO_2e$ in 2021.

| GHG Emissions Indicator[1] | Unit | 2021 | 2020 |
|---|---|---|---|
| Direct GHG emissions (Scope 1)[2] | $tCO_2e$ | **52.60** | 101.12 |
| Indirect GHG emissions (Scope 2)[2] | $tCO_2e$ | **102.38** | 103.63 |
| Total GHG emissions (Scope 1 and 2)[2] | $tCO_2e$ | **154.98** | 204.75 |
| Intensity[3] | $tCO_2e$/turnover (RMB'000) | **0.0006** | 0.0010 |

Notes:

1. GHG emission data are presented in terms of carbon dioxide equivalent, with reference to, including but not limited to, the reporting requirements of "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, latest released emission factors of China's regional power grid basis, the emission factor released by the Hong Kong Electric Investments in 2020 and "Global Warming Potential Values "from the IPCC Fifth Assessment Report, 2014.

2. Scope 1: Direct GHG emissions from vehicles owned by the Group.
   Scope 2: Indirect GHG emissions from the generation of purchased electricity consumed by the Group.

3. As of 31 December 2021, the Group's turnover was approximately RMB248,154,000

**Treatment of exhaust gases**

The Group's main air pollutant are vehicle exhaust gases emission and welding fumes produced in welding work stations.

Immaterial amount of fumes is produced during welding and will be discharged into high-altitude air after being collected and filtered according to the requirements from the environmental protection authority in the PRC. Discharging pipes are installed above each welding work station of production lines in the assembly hub in Hunan. Welding gas will be sucked into the pipes and discharged into high-altitude air after being filtered and purified. The Group has established a routine maintenance system. Discharging pipes in the factories are regularly cleaned.

In order to better align with the actual business usage and strengthen the control of operating costs, the Group disposed five vehicles. Therefore, the vehicle utilization rate has dropped as compared to 2020, resulting in the decrease in emission of exhaust gases. For the year ended 31 December 2021, the Group's vehicle exhaust gases emission was as follows:

| Types of Emission | Unit | 2021 | 2020 |
|---|---|---|---|
| Sulphur oxides | Tonnes | **0.0003** | 0.0006 |
| Nitrogen oxides | Tonnes | **0.0122** | 0.0982 |
| Particulate Matters | Tonnes | **0.0009** | 0.0079 |

**Sewage reduction**

The Group does not generate industrial sewage as water is not required in its production process. Sewage generated by the Group is mainly domestic sewage, which will be discharged to municipal sewage system after primary treatment in regional septic tank, and then undergone advanced treatment in regional sewage treatment plant. The Group has also renovated its water-saving tanks installed in washrooms and carried out other measures to reduce domestic sewage discharge. For the year ended 31 December 2021, the performance of sewage reduction was as follows:

| Types of Sewage | Unit | 2021 | 2020 |
|---|---|---|---|
| Domestic sewage | Cubic meters | **1,226.03** | 1,070.49 |
| Intensity | Cubic meters/turnover (RMB'000) | **0.005** | 0.005 |

The overall domestic sewage reduction of the Group increased by approximately 15% from approximately 1,070.49 cubic meters in 2020 to approximately 1,226.03 cubic meters in 2021. This is mainly because, as compared to 2020 when the work attendance of the Group's staff was severely restricted by the outbreak of the global coronavirus (COVID-19) pandemic (the "**Pandemic**") in early 2020, the work attendance of the Group's staff in 2021 increased with the relief of the Pandemic in 2021.

**Hazardous and non-hazardous wastes**

*Production Department*

The Group strictly complies with the national regulations governing the management of electronic waste equipment, promotes the recycling and reuse of waste products, and reduces the rate of waste disposal. The solid wastes are mainly lead-free tin slag, metal and plastic waste, waste packaging materials and other recyclable wastes produced during the production process, as well as office waste generated during operation process, fluorescent lights and disposed batteries, a small amount of defective devices and semi-finished scrapped devices. The Group's general waste is contracted to professional recyclers for centralized recycling. Hazardous wastes are handed over to departments qualified for hazardous wastes disposal and registered with the Environmental Protection Bureau. Due to the Group's business nature, the Group does not have any hazardous waste electronics and generate any significant hazardous waste discharge in the daily operations.

The Group has a strict classification system for different types of wastes. Wastes are stored, handled and recorded separately. Waste bins are set up according to the type of wastes and are placed in appropriate areas. Wastes generated by each department are classified and threw into designated waste bins according to the "Waste Management Requirements", and engaged qualified recyclers for disposal. The Group has also put much efforts on recycling and reusing general or valuable components and parts (such as universal chip on printed circuit board) to reduce the impacts on nature.

*Office Areas*

Recyclable wastes are recycled, while hazardous wastes (e.g. end-of-life fluorescent lights and batteries) are collected in specific site, which will then be handed over to outsourced parties with appropriate qualification for disposal after reaching a certain amount.

The Group promotes the use of various electronic mobile office software to reduce paper usage. Electronic mobile system such as the R&D projects "Product Life Cycle Management" and "Enterprise Resource Planning" were used for approval procedure, which further expanded the paperless network and the coverage of mobile office. Paperless systems were established for internal communications such as employee learning and development. As a result, the amount of paper used in the office has been reduced and the results are satisfactory. In addition, declaration and approval process is performed on the OA system. Most of the internal approval processes have become paperless, which has significantly reduced office paper use by approximately 66% in 2021. For the year ended 31 December 2021, the Group's non-hazardous waste discharge performance is summarized as follows:

| Types of Wastes | Unit | 2021 | 2020 |
|---|---|---|---|
| Total amount of non-hazardous wastes | Tonnes | **0.20** | 0.59 |
| Intensity | Tonnes/turnover (RMB'000) | **0.000001** | 0.000003 |

## Use of Resources

**Energy saving**

The Group acknowledges that every enterprise should work towards the trend of low-carbon operation. The Group has been committed to environmental protection and invested substantial capital and human resources in environmental protection, striving to provide smart energy saving and emission reduction management solutions for the global market with PLC technology, and application of which includes streetlight control, building energy management and photovoltaic power management. Meanwhile, it has always been devoting our efforts to efficient use of energy in order to strike a balance between corporate development and environmental protection.

During the year under review, in order to better align with the actual business usage and strengthen the control of operating costs, the Group disposed five vehicles. Therefore, the vehicle utilization rate has dropped as compared to 2020, resulting in the decrease in petrol usage. Purchased electricity mainly represents power consumption by the Group for its operations. During the year under review, mainly due to the relocation of the Group's Shenzhen and Hong Kong head office and the downsizing of the Group's Wuxi office operation, the Group recorded a reduced consumption of purchased electricity as compared to 2020. Based on the above, the overall energy consumption decreased by approximately 30% from approximately 543,076.85 kWh in 2020 to approximately 381,342.50 kWh in 2021. The Group's energy consumption for the year ended 31 December 2021 is as follows:

| Types of Energy | Unit | 2021 | 2020 |
|---|---|---|---|
| Petrol[4] | kWh | **215,982.28** | 368,461.85 |
| Purchased electricity | kWh | **165,360.22** | 174,615.00 |
| Total | kWh | **381,342.50** | 543,076.85 |
| Intensity | kWh/turnover (RMB'000) | **1.54** | 2.55 |

Note:

4. Actual petrol consumption in 2021 and 2020 is approximately 22,286.07 liters and approximately 38,019.63 liters.

**Energy efficiency**

The Group adopts its self-developed building energy management system to centralize the management of its internal air conditioners in a planned manner and remotely control the temperature and switching time of the working environment, which effectively reduces wear and tear and extend the service life of air conditioners. In 2021, these enhancement projects have allowed it to efficiently reduce energy usage of air conditioning system as well as the entire floors and cut down carbon dioxide emissions of the Group.

**Water saving**

As always, internal energy-saving education to its employees is continuously carried out to develop the awareness of conservation. For example, once the water pipeline leakage was discovered, timely reporting and repairing would be carried out. Visual energy-saving slogans for water-saving, energy-saving and paper-saving are posted in the area of office, pantry and toilet to raise environmental awareness of employees. The Group did not face any issues in sourcing water fit for its purposes in 2021.

The Group has been strived to promote environmental protection and raise employees' awareness of environmental protection, with reasons mentioned in the "Sewage reduction" section. There was a relief of the Pandemic in 2021 as compared to 2020. The Group's operating activities were able to resume and therefore water consumption has increased. Overall water consumption has been increased by approximately 15% from approximately 1,070.49 cubic meters in 2020 to approximately 1,226.03 cubic meters in 2021.

| Water Consumption | Unit | 2021 | 2020 |
|---|---|---|---|
| Water consumption | Cubic meters | **1,226.03** | 1,070.49 |
| Intensity | Cubic meters/turnover (RMB'000) | **0.005** | 0.005 |

**Environmentally friendly packaging materials**

The Group has reduced the use of materials and prioritized recyclable and reusable materials without impairing the packaging quality. Also, the Group has increased the reusage rate of packaging materials, which greatly reduced the actual usage of packaging materials. For example, the Product Assembly Hub in Hunan adopted reusable plastic materials in production cycle and temporary storage packaging, which significantly reduced the wastage on packaging cartons. Furthermore, in terms of product design, plastics have been replaced by recyclable aluminium alloy for certain products in order to reduce the damages to the environment.

During the year under review, there was an increased export demand for the Group's PLC based narrowband AMR products by meter manufacturers who adopted the Group's narrowband AMR products for production of their smart meters, which are ultimately exported to overseas countries. As a result, the usage of PE plastic bag increased. The types of packaging materials used by the Group during the year under review are as follows:

| Types of Packaging Material | Unit | 2021 | 2020 |
|---|---|---|---|
| PE plastic bag | Tonnes | **0.004** | 0.003 |
| Pearl cotton | Tonnes | **0.04** | 0.04 |

## The Environment and Natural Resources

**Assisting customers in energy conservation and emission reduction**

The Group continues to save energy, improve energy efficiency and reduce the pressure of energy use on the environment. Through its self-developed PLC technology and in-depth integration with the new generation of information technology such as the Internet of Things, big data and cloud computing, the Group strives to provide users with integrated energy management solutions and equipment and develops the Internet of Things for energy, with a view to facilitate energy conservation and emission reduction, while providing a safe, comfortable and efficient working environment. Many of its customers have started to adopt the Risecomm Building Energy Management Equipment extensively in workshops, dormitories, offices, and indoor work and study space in schools. Compared with that before the installation of the system, the energy saving effect is significant.

**Creating a green workplace**

In 2021, the Group, according to its pre-determined schedule, implemented the concept of green environmental protection in the operation of office areas, focusing on improving the office environment, which aims at reducing the emissions of its own office operations and improving the efficiency of the use of resources and energy. In terms of emission reduction awareness, as in the previous year, the Group has continued to organise "Walking for health" activities to encourage employees to embrace low carbon footprint travel. There is no significant waste of natural resources in the Group's business. It also introduces energy-saving equipment in its office, such as multi-functional photocopiers (with printing, scanning and fax functions) that meet efficiency standards to promote green office and reduce energy consumption.

**Supplier with environmental protection concepts**

In 2021, the Group uses established principles to select suppliers and gives priority to printing materials with green concepts. Using recycling paper to print companies' leaflets, albums, greeting cards, etc., and also work with printers and advertising companies with environmental protection concepts. In order to implement the environmental awareness and social responsibility requirements to all suppliers as a whole in terms of supply of production materials, the Group has formulated the relevant system, "Procurement Management Process", and also gives priority to suppliers who comply with national environmental standards and environmentally conscious suppliers when selecting suppliers.

The nature of the Group's business is itself concerned with limiting the harmful effects on the environment that energy use can have, as demonstrated by the Risecomm Building Energy Management Equipment which has been widely used. Therefore, the impact of the Group's activities on the environment and natural resources are limited and mainly includes only the use of vehicles producing exhaust gases emissions and the consumption of electricity and office paper.

For the actions taken to manage them, please refer to the subsection titled "Creating a green workplace" within the section "The Environment and Natural Resources".

Environmental-related targets, such as emissions targets, hazardous and non-hazardous waste reduction targets, energy use efficiency targets, and water efficiency targets, are still to be reviewed by the Group which will disclose such targets in due course.

## Climate Change

Climate change affects people and businesses globally and the Group cannot ignore the impacts thereof. The Group has identified the following significant climate-related issues and has formulated action policies to limit the effects of climate change as far as possible.

| Significant climate-related issues which have impacted and those which may impact the issuer | Actions taken to manage the identified risks |
|---|---|
| **Physical risks:**<br>*Acute risks* | |
| i) Typhoon | |
| Some places such as Hong Kong are affected by typhoons almost every year. For example, there were over 60,000 reports of trees collapsing and at least 500 reports of damage to windows or glass curtain wall throughout Hong Kong during the Typhoon Mangkhut. More than 40,000 households in Hong Kong had their electricity supply disrupted, causing traffic chaos. | The Group will closely monitor weather forecasts and warnings issued by authorities in various places such as the Hong Kong Observatory, the Shenzhen Emergency Bureau and the Shenzhen Meteorological Bureau, and will allow staff to go to work or leave earlier or suspend their work at appropriate times to ensure their safety.<br><br>The Group will take precautionary measures before the typhoon hits, including closing windows tightly, pulling down curtains, etc. and locking up important documents to minimise those being blown away during the typhoon. |
| ii) Flood | |
| Extreme weather conditions such as heavy rainfall may cause flooding and hence damage to the Group's property. | Emergency lights are installed at all exits of the Group.<br><br>The Group will regularly check the drainage inlets to prevent blockage and reduce the damage to the Group's property caused by flooding. |
| *Chronic risks* | |
| The rising trend in average global temperatures shows that there are more warming areas than cooling areas. Long-term risks such as prolonged heat waves may affect the occupational safety and health of employees. | The Group will pay attention to weather forecasts and warnings issued by the Hong Kong Observatory and Shenzhen Meteorological Bureau, etc., adjust work arrangements and provide heat protection materials and information on occupational safety and health to our staffs.<br><br>The extent of global warming in the future will depend on the amount of carbon dioxide and other greenhouse gases emitted in the coming decades. Our goal is to reduce carbon emissions. |

| Significant climate-related issues which have impacted and those which may impact the issuer | Actions taken to manage the identified risks |
|---|---|
| **Transition risks:** | |
| i) Policy risks | |
| With the introduction of a series of policies such as China's Policies and Actions on Climate Change Annual Report 2019(《中國應對氣候變化的政策與行動》), "Opinions on Deepening the Battle of Pollution Prevention and Control"(《關於深入打好污染防治攻堅戰的意見》) and "Guiding Opinions on Deepening the Legal Administration in the Field of Ecology and Environment and Continuously Strengthening the Governance of Pollution in accordance with the Law"(《關於深化生態環境領域依法行政持續強化依法治汙的指導意見》), which triggered the increase in the supply of raw materials and energy prices, it may create the risk of cost increase to the production and operation activities of the Group. | The Group continuously pays attention to the relevant policy requirements of government departments on energy conservation and emission reduction as well as the trend of policy development. The Group has a sound financial management system and is able to control various budgets and cost expenditures effectively. The Group has also formulated corresponding energy saving and emission reduction measures to reduce the consumption of raw materials, energy and water, etc., and to minimise the harm and risk to the environment in its production. Therefore, the impact of policy risk on the Group is not significant and the risk is manageable. |
| ii) Legal risks | |
| National laws and regulations on environmental protection are becoming increasingly sophisticated and local governments in the region where the Group is located have increased their efforts in environmental protection supervision. However, the Group mainly engages in technology research and development activities and its production activities only involve simple assembly and testing, so the impact of its research and development and production activities on the environment is relatively low and the chance of occurrence of this risk is low. | The Group regularly collects and updates the environmental, occupational health and safety laws and regulations applicable to the Group each year and disseminates them throughout the Group, requiring compliance with relevant environmental, occupational health and safety laws and regulations in its technology development activities and production processes, and conducts annual assessments of the Group's operating activities in compliance with relevant laws and regulations to ensure that the Group's operating activities comply with the relevant laws and regulations.<br><br>The impact of this risk on the Group is low and the risk is manageable. |

| Significant climate-related issues which have impacted and those which may impact the issuer | Actions taken to manage the identified risks |
|---|---|
| iii) Technology risks | |
| The Group is in the power line communications industry and is exposed to technological risks mainly because power line communications technology is widely used for data transmission, with increasing amounts of data transmission information and increasing requirements for communication speed. Meanwhile, the Group's products are exposed to product compatibility risk due to differences in application, distribution network structure and power line channel characteristics in different regions. | The Group adopted dual-mode communication technology to make up for the shortcomings of pure power line communications technology, which does not have an advantage in terms of communication rate. We effectively improved the communication rate of the products, so that the communication success rate and communication rate of the Company's products are among the best in the industry.<br><br>The Group's products are developed in accordance with the requirements set out in the "Technical Specification for Interconnection of Low Voltage Power Line Broadband Power Line Communications (《低壓電力線寬帶載波通信互聯互通技術規範》)", and the Group also actively participates in the interconnection tests of various meter plants in various provinces to effectively improve product compatibility.<br><br>The Group's products are environmental-friendly products. The technical research and development department intentionally gives priority to environmental materials in the material selection stage of product development in order to reduce excessive greenhouse gas emissions from its products to the environment, while the Group actively promotes the adoption of new materials and processes by its suppliers to produce environmental materials and share its social and environmental responsibility.<br><br>The products developed and manufactured by the Group are environmental-friendly and energy efficient, designed to save energy and reduce carbon emissions for its customers (and end users), so the probability of this risk is low. |
| iv) Market risks | |
| The Group is exposed to market risk mainly due to changes in industry demand and shifts in customer demand for its products. | The Group pays close attention to changes in market demand, requirements of the domestic environment and customer demand, adjusts the Company's strategic objectives and product direction in a timely manner, puts forward environmental protection and safety requirements at the product decision stage, promotes the adoption of new processes and materials by suppliers for environmental-friendly production, and strives to provide green, environmental-friendly and safe products that meet national environmental and energy saving requirements and market demand.<br><br>The chances of this risk are low. |

| Significant climate-related issues which have impacted and those which may impact the issuer | Actions taken to manage the identified risks |
|---|---|
| v) Reputational risks | |
| Climate change is a global issue and stakeholders are increasingly concerned about the environmental performance of companies. If the Group caused disruption to the climate, it will have difficulty attracting and retaining customers, employees, business partners and investors. This could have an impact on the Group's sales, financing and image. | The Group aims to reduce carbon emissions by, for example, reducing the use of cars and planes by more frequent use of alternate ways of communication such as online meeting software where possible.<br><br>Some office buildings use environmental air-conditioning, with the temperature set at no less than approximately 26°c, energy-saving lamps, carry out regular inspection and maintenance of all equipment affecting energy efficiency, and implement energy saving and consumption reduction policies in the Group, urging all personnel to save energy, water and electricity as required, and separate waste collection and disposal properly.<br><br>The Group has obtained ISO14001 (environmental management system) and ISO45001 (occupational health and safety management system) certification in response to the relevant policy requirements. |

## SOCIAL RESPONSIBILITY

The Group takes initiative to fulfil its social responsibility in corporate development, insists on sustainable development, humanistic care and environmental protection and applied the concept of social responsibility consistently throughout the entire supply chain, and has created an efficient supply chain platform for mutual benefit and better carried forward corporate social responsibility on this basis. For the year ended 31 December 2021, the Group has established, continuously operated and updated, a strong social responsibility management system through the following initiatives.

### Employment and Labour Practices

**Employment**

The Group puts the core values of "people-oriented" and "investing in people" into practice and emphasizes to have "mutual commitment" with its employees, incorporating the pursuit of individual employee into long term corporate development. Through sharing the growth with its employees, the Group develops its business together with the staff.

**Analysis of human resources**

As at 31 December 2021, the Group and its subsidiaries had total of 163 employees, 108 of whom were male and 55 were female, representing 66% and 34% of the total number of employees respectively. Among all employees, 10 employees held doctorate and postgraduate degree, 75 employees held university degree and 78 employees were below degree level, representing 6%, 46% and 48% of the total number of employees respectively.

Breakdowns of the employees by gender, age group, geographical area and employee category as at 31 December 2021 are set out below:

| Type of Employees | 2021 Number of employees | 2021 Approximate percentage of the total number | 2020 Number of employees | 2020 Approximate percentage of the total number |
|---|---|---|---|---|
| Total[5] | **163** | **100** | 177 | 100 |
| **By gender** | | | | |
| Male | **108** | **66** | 122 | 69 |
| Female | **55** | **34** | 55 | 31 |
| **By age group** | | | | |
| Aged 30 or below | **32** | **20** | 38 | 21 |
| Aged 31-40 | **70** | **43** | 76 | 43 |
| Aged 41-50 | **35** | **21** | 40 | 23 |
| Aged 51 or above | **26** | **16** | 23 | 13 |
| **By geographical area** | | | | |
| China | **159** | **98** | 173 | 98 |
| Hong Kong | **4** | **2** | 4 | 2 |
| **By employee category** | | | | |
| General | **101** | **62** | 105 | 59 |
| Middle Management | **46** | **28** | 55 | 31 |
| Senior Management | **16** | **10** | 17 | 10 |

| Type of Employees | Number of employees who left | Turnover rate |
|---|---|---|
| Total | 38 | 23% |
| **By gender** | | |
| Male | 27 | 25% |
| Female | 11 | 20% |
| **By age group** | | |
| Aged 30 or below | 12 | 38% |
| Aged 31-40 | 14 | 20% |
| Aged 41-50 | 9 | 26% |
| Aged 51 or above | 3 | 12% |
| **By geographical area** | | |
| China | 36 | 23% |
| Hong Kong | 2 | 50% |

*Note:*

5 Except a part-time staff, all employees work in full-time base.

**Protection of employees' right**

Employees are the foundation of corporate development. The Group has been actively protecting the basic rights of employees. In terms of employment, the Company has strictly complied with "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Law of the People's Republic of China on the Protection of Rights and Interests of Women" (中華人民共和國婦女權益保護法) and other relevant requirements of the places where its overseas companies operate. The Group has also developed a human resources management system, with the Human Resources Control Procedures being established in a scientific and reasonable manner and applied in the areas of recruitment, promotion, remuneration, benefit, assessment, training, employee relations and communication etc. of the Company, so as to ensure the fairness of employment conditions, without discrimination in age, gender, place of origin, ethnicity, customs, religion, social hierarchy, physical disability, political affiliation and so on. Child labour and forced labour are explicitly forbidden.

**Benefits and remuneration**

The Group provides competitive remuneration and benefit for all employees and contributes to various kinds of social insurance in accordance with local policies, such as pension, medical care, work-related injuries, maternity, unemployment insurance and housing provident funds. In order to attract, retain and motivate employees, the Company conducts comprehensive assessment of employees according to annual performance appraisal. Key performance indicators of employees will be recorded through the system, and the management department will evaluate employees' performance based on the completion time and quality of work as well as their contribution to the Company. Performance assessment results are divided into 5 levels, and are in line with annual performance pay, bonuses, and promotions, thereby generating employees' enthusiasm for working.

**Encouraging work-life balance**

As always, the Group attaches great importance to occupational health of each employee and strictly abides by national policies on holidays and working hours, encourages employees to balance work and life, and ensures that employees enjoy benefits such as sick leave, marriage leave, maternity leave and annual leave. It advocates entrepreneurial spirit in the Company, encourages the team to share their successful experience and happiness in office, and has established an "internal trainer" incentive scheme to encourage technological innovation and experience sharing. In addition, the Group has organized various types of entertainment and leisure activities for employees and established recreation and sports groups such as basketball club, badminton club, table tennis club and reading club, so as to enrich employees' leisure time. Team activities and social activities are regularly organised as well, allowing employees to enjoy their lives in a stressful working atmosphere.

**Caring for employees' families**

The Group cares about its employees not only in daily operation, but also the family of each employee. The Group presents gifts to employees on their birthday, wedding, death of relatives as well as traditional festivals. The "Family Day Trip" and "Family Visit Day" have been the Group's events for showing care to its employees.

For the year ended 31 December 2021, the Group actively complied with requirements in "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Labour Contract Law of the People's Republic of China" (中華人民共和國勞動合同法) and other laws and regulations, and no major violation matters against human resources laws and regulations have been found.

**Female employees' rights**

With respect to the protection of female employees' rights, the Group also complies with the relevant state laws and regulations to provide its female employees in all branch offices around the country with a maternity leave of at least 98 days and maternity allowances. In the meantime, the Group also provides pregnant or breastfeeding female employees with suitable work positions, breaks and pregnancy-friendly facilities. Pregnant employees are entitled to paid maternity leave and lactating mothers are allowed to have 1 hour breast feeding leave per day. These initiatives allow them to continue to develop their career and professional skills at any time regardless of their physical conditions or family status.

**Equal opportunity, diversity, and anti-discrimination**

The Group incorporates the concepts of equal opportunity, diversity, and anti-discrimination into its organisational culture, which complies with relevant laws such as the Law of the People's Republic of China on the Protection of Disabled Persons (中華人民共和國殘疾人保障法), Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong) and the Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong).

Recruitment is based on candidates' relevant experience, qualifications, personalities, and comprehensive abilities. Training and promotion are also based on equal opportunities regardless of age, gender, place of origin, ethnicity, customs, religion, physical disability, and so on. The Group has zero tolerance for any kind of discrimination and harassment and aims to create a positive working environment, promotive of the concepts of equal opportunity, diversity, and anti-discrimination.

## Health and Safety

The Group attaches great importance to the safety and health of its employees in the course of operation, and strives to create a safe and comfortable working atmosphere. The Group has purchased commercial insurance for employees who travel frequently and arranged body check for all employees to ensure their physical and mental health.

The Group has built a clear organizational structure of safety production management and established a safety management committee. The Group fully applied the "ISO45001 Occupational Health and Safety Management System" and "ISO14001 Environmental Management System". Based on the actual condition of the Company, it has established 29 procedures and management documents in various categories, covering emergency management, fire control management, dangerous goods management, construction management, safety training and safety production inspection, so as to implement safety management in all aspects. At the same time, the Group has dedicated personnel to manage these systems and files, and conduct regular assessment, maintenance, updating and upgrading.

The Group has had no work-related fatalities and injuries for the past three years (including the reporting year). Accordingly, there was no loss of working day due to work-related injuries.

**Safety seminars and drills**

For the year ended 31 December 2021, the Group strictly enforced relevant laws and regulations such as "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Production Safety Law of the People's Republic of China" (中華人民共和國安全生產法), "Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases" (中華人民共和國職業病防治法) and "Fire Protection Law of the People's Republic of China" (中華人民共和國消防法). No violation against laws and regulations related to health and safety in the workplace have been found, and no cases of death due to work relationship and serious injuries at work occurred.

## Development and Training

The Group has established the diversified career development paths to help staff development, which is expressly stated in the Human Resources Procedures, Training Management Measures, and Management Measures for Job Qualification and Performance Evaluation, and has implemented a continuous improvement model to promote training:

Analysing training needs → Designing training methods and courses → Training → Results evaluation and review

The Group's training methods include tutorials, meetings and discussions, technical exchanges and industry forums, information learning, etc. Employees can set goals and upgrade themselves according to their actual situation and get fair promotion.

In order to develop employees' potential and abilities to fulfil their duties and handle challenges in work, the Group has provided training for employees at all levels to help them to achieve self-improvement. The Group firmly believes that, every employee is its most precious asset. In terms of training contents, the Group has designed professional, general and project-based courses. Among these, professional courses are provided to employees working in R&D centre, sales centre, production centre, quality control, finance and various departments and positions. General courses and project-based courses cover a wider range of topics, including fire safety, occupational health and professional ethics. The Group designs different training programs for different levels of employees, for example, according to management level, it will design training targeted from the junior to the senior level.

The Group provides room for each employee to grow and develop, and sets up a proper training system to ensure that every employee in the Group will remain competitive and attractive in the highly competitive industry development.

Breakdowns of the employee training by gender and employee category as at 31 December 2021 are set out below.

| | Male | | | | Female | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Employee training | Number of employees trained | Approximate percentage of employees trained | Hours of training | Average training hours completed per employee | Number of employees trained | Approximate percentage of employees trained | Hours of training | Average training hours completed per employee | Number of employees trained | Approximate percentage of employees trained | Hours of training | Average training hours completed per employee |
| **By employee category** | | | | | | | | | | | | |
| General | 33 | 38% | 487 | 8 | 15 | 17% | 160 | 4 | 48 | 56% | 647 | 6 |
| Middle Management | 22 | 26% | 189 | 6 | 8 | 9% | 92 | 8 | 30 | 35% | 281 | 6 |
| Senior Management | 7 | 8% | 78 | 6 | 1 | 1% | 9 | 5 | 8 | 9% | 87 | 5 |
| Total | 62 | 72% | 754 | 7 | 24 | 28% | 261 | 5 | 86 | 53% | 1,015 | 6 |

## Labour Standards

The Group employs staff in accordance with "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Labour Contract Law of the People's Republic of China" (中華人民共和國勞動合同法), "Special Rules on the Labour Protection of Female Employees" (女職工勞動保護特別規定) and "Regulations of the Shenzhen Special Economic Zone on the Promotion of the Harmonious Labour Relationship" (深圳經濟特區和諧勞動關係促進條例), actively complies with relevant labour laws and regulations, safeguards the labour interests of employees, creates a safe and stable working environment, ensures workplace hygiene and safety and properly takes care of employees' physical and mental health.

The Group strictly prohibits the employment of any child or forced labour in its business. The Group reviews its employment practices from time to time and inspects the employment status of suppliers and business partners to prevent potential irregularities. In addition, the Group requires employees to fill in the entry form and provide personal data (including resume, identity documents, academic certificates, career background check, etc.) in an honest manner upon joining. The Human Resources Department and the Project Office will review before hiring to ensure that the recruitment complies with regulations and laws.

The Group has set up a suggestion box to receive suggestions and complaints from all employees. If the Group is found to have violated the relevant laws such as the employment of child labour, the employment will be terminated immediately. If forced labour is discovered, the Group will investigate and impose appropriate penalties such as warnings, book warnings, demerits, termination of employment contracts, etc. If the interests of the Group is affected, the relevant personnel will be held responsible in order to protect human rights and assume social responsibility.

For the year ended 31 December 2021, the Group did not find any significant violations against laws and regulations relating to the prevention of child and forced labour.

## OPERATING PRACTICES

### Supply Chain Management

To better perform corporate social responsibilities, the Company has established a supply chain management system which is managed by the supply chain management team of the Group in a centralized manner. Suppliers are selected and evaluated on the basis of fairness, impartiality, objectivity and information transparency. All existing and potential suppliers will be informed of the requirements of the Group on the social responsibility of suppliers, so as to promote suppliers' greater commitment to social responsibilities and environmental protection awareness. The Company has developed the Supplier Management Procedures which provides detailed standards and requirements in terms of corporate social responsibility, quality management, environment management, occupational safety, intellectual property, materials management, quality control and other aspects. All suppliers are required to carry out their social responsibilities.

The Group has entered into quality assurance agreements with its suppliers with 100% coverage, which set out the specific quality standards that suppliers must comply with and the passing rates required for quality inspection. The Group conducts internal checks on the raw materials received from its suppliers and delivers them for production afterwards. In particular, all the raw materials needed for outsourced production are purchased by the Group and passed its internal quality inspection before delivered to the outsourced manufacturers to ensure the quality of the raw materials of the products.

The following table shows the distribution of the Group's suppliers for the year ended 31 December 2021:

| Distribution Area | Number of suppliers |
|---|---|
| Mainland China | 236 |
| Hong Kong | 3 |
| Taiwan | 1 |

**Supplier management process:**

Background investigation → Preliminary assessment → On-site examination → Sample approval → Comprehensive evaluation → Submission of approval → Monitoring and continuous improvement

*Selection and assessment*

The Group emphasizes social responsibility during the resources collection, evaluation, selection and development process of suppliers under the premise of guaranteeing the quality and cost-performance, and prefers high-quality potential suppliers which comply with national requirements on environmental protection and social responsibility. The process is designed to guarantee equal opportunities for suppliers as well as fair and impartial evaluation and selection.

Supplier assessment is conducted by a team. A list specifying the scope of assessment is provided by category. In order to be qualified, a supplier must meet the requirements of the Company in respect of product quality, safety, environmental protection, management responsibility, social obligations and risk management. Its assessment team will assess and ascertain the qualification of supplier in an objective and fair manner and in strict compliance with the requirements of the process.

Based on the principle of "quality first, mutual benefits, joint development", the Group has built a solid foundation for win- win cooperation with its suppliers. The Group has the right to request for continuous quality improvement and the suppliers has the obligation to continuously improve the quality of their products.

*Monitoring and improvement*
The "Corporate Resources Planning", "Supplier Management Procedures" and Supplier Database System allow the Group to conduct supplier management categorised by different supplies or different classifications of service qualification. The database system records suppliers' comprehensive information on business registration, on-time delivery, quality level, price management and performance evaluation score, etc. The Group has adopted supplier resource sharing strategies to conduct joint tendering and centralized procurement for projects at different places, which enhances the quality of products and reduces the cost of procurement in a dramatic way.

The Group requires suppliers to establish comprehensive quality and environment management system with reference to ISO9001, ISO14001 and ISO45001. Its supplier quality assurance team will conduct regular review and evaluation on the suppliers' level of attainment in respect of their implementation and management. Suppliers failed to meet its requirements will be required to make improvement and receive counselling for the establishment of comprehensive management system.

*Transparent procurement*
In respect of supply chain management and procurement, the Group has adhered to the philosophy of "transparent procurement", and has also been committed to its environment management and social responsibilities, so as to ensure that the corporate social responsibilities are fulfilled throughout the process of supply chain management and procurement and such process is "fair, open and equitable". Management personnel of suppliers are required to exercise strict self-discipline and supervise their subordinates to create an ethical business environment within the Company with self-awareness to protect and ensure that their team members who work with the Group are aware of and abide by the requirements of "transparent procurement". Any form of bribery shall be prohibited, and any improper business practices or unethical behaviour shall be disclosed to the Group proactively.

## Product Responsibility

The Group adheres to the principle that "Quality is the life of Risecomm and the dignity of every employee". In order to constantly provide customers with satisfactory products and services, the Group has been devoting its efforts to establish and improve its quality management system. The Group places importance on the reliability of product design, failure analysis and comprehensive reliability verification. All products would undergo strict system testing before they are finalized. R&D, pilot production, mass production, pre-sale technical support and after-sales service are all carried out by specialized quality control personnel.

For the year ended 31 December 2021, the Group did not find any major violation against the health and safety, advertising, labelling and privacy of the products and services provided, and strictly complied with relevant laws and regulations, including but not limited to, "Product Quality Law of the People's Republic of China" (中華人民共和國產品質量法), "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" (中華人民共和國消費者權益保護法), "Advertising Law of the People's Republic of China" (中華人民共和國廣告法), "Copyright Law of the People's Republic of China" (中華人民共和國著作權法), "Patent Law of the People's Republic of China" (中華人民共和國專利法) and "Trademark Law of the People's Republic of China" (中華人民共和國商標法), etc.

The Group has obtained the ISO9001 quality management system certification. The Group has also established a specialized quality control team responsible for carrying out quality control procedures based on the ISO9001 standard. The Group carries out quality control measures at various stages of the procurement and product manufacturing process. All suppliers must undergo different inspections before the Group approves their engagement, including on-site examinations and assessments, as well as sample tests, to ensure that the raw materials purchased by the Group and services outsourced by the Group would meet its quality standards and customer's product requirements.

The Group also regularly sends quality control personnel to outsourced manufacturers to perform standard quality control procedures and closely monitor outsourced production processes. For IC chipsets, upon receipt of IC chipsets from chipset suppliers, it will conduct a series of internal inspections. For example, its warehouse and procurement personnel will first check the quantity and model of the IC chipsets, and its quality control team will check the vacuum packaging, function and quality of the IC chipsets as well as related quality control reports provided by suppliers. Any inferior products identified during the acceptance process will be returned to the supplier. For the year ended 31 December 2021, no sold or shipped products are subject to recall for safety and health reasons and the Group did not receive any products and services related complaints.

Its IC chipset inventory will be managed in accordance with the "first-in-first-out" policy. The Group will conduct quality reviews on IC chipsets aged over six months to ensure that the chipsets are qualified for production use. The Group also operates internal testing and quality control systems to ensure consistent quality of finished products and application of proprietary technologies. These procedures mainly include functional and product safety tests, as well as packaging inspections. Due to its business nature, the Group considers information relating to advertising and labelling is immaterial.

**Green product**

Provision of energy-efficient green products and solutions to reduce carbon emission is the main objective of product development of the Group. Its smart energy control products have been in compliance with the energy-efficient requirements throughout the development, production and delivery process. Through advanced technology, optimised design of standby function of products and streamlined product packaging, the Group has been improving the management of its energy- saving control system, enhancing management efficiency, and facilitating its operation.

**Intellectual property rights**

In order to protect the intellectual properties of the Group, the Group has formulated the Management Measures for Intellectual Property to regulate the requirements of protection and supervision in accordance with the "Patent Law of the People's Republic of China" (中華人民共和國專利法), the "Detailed Rules for the Implementation of the Patent Law of the People's Republic of China" (中華人民共和國專利法實施細則) and the "Provisions of Patent of Guangdong Province" (廣東省專利條例), etc. Also, it has established an intellectual property rights management system in accordance with the national requirements under GB/T 29490-2013 "Enterprise Intellectual Property Management Practice" (企業知識產權管理規範), so as to protect the intellectual property rights of the Group.

As of 31 December 2021, the Group held an important intellectual property portfolio comprising 22 patents, 114 computer software copyrights and 9 registered IC layout designs, and 3 patents pending registration in the relevant jurisdiction, signifying the Group's achievements in R&D in PLC technology and the MSI of the petroleum and petrochemical industries.

**Privacy protection**

Furthermore, the Group places great importance to the privacy protection of customers, employees and suppliers, and is committed to maintaining and safeguarding its relevant information, including brand-related intellectual property and confidential information or any form of confidential information of potential property interests or economic value. At the same time, cooperating suppliers are required to sign relating provisions to prevent leakage of confidential information and prevent the relevant information from unauthorized use through appropriate technical means and processes. Any leakage of supplier or staff information will be strictly investigated and processed in accordance with the effective provisions signed or internal regulations.

The Group emphasizes on the protection of consumer data and privacy. Each new employee is required to sign an employment contract agreeing not to disclose the Group's confidential data, including consumer data and personal information, during or after employment without the Group's authorisation. The relevant policy is implemented and monitored by dedicated personnel.

## Anti-corruption

In respect of staff management, the management and all employees in the Group are required to strictly follow the principle of "being a man of integrity and working with integrity" and comply with the "Code of Conduct for Employees", the "Management Rules of Motivation and Discipline", the "Management Rules of Anti-corruption and Reporting and Complaint" and related national laws and regulations. In the event that an employee's interests are found to be infringed as a result of internal frauds, unethical business practice, violation against laws and regulations or professional misconduct, complaints and reports may be made directly to the supervisor or relevant department.

In order to further prevent fraudulent practices, enhance the governance and internal control and protect the legitimate interests of the Group and shareholders, the Group has also created an email address specialized for reporting, through which employees may directly report illegal or irregularities in work or operation to the top management. Investigation will be taken to the extent permitted by laws.

Whistleblowing emails are managed by two designated management staffs for monitoring purposes. If a report case exists, management will conduct an investigation. If management believes that a criminal offence has been committed, it will report to law enforcement agencies where necessary.

For the year ended 31 December 2021, the Group has provided anti-corruption training to its directors and staff. For example, "Introduction to Anti-Corruption Regulations", "Management Rules of Anti-corruption and Reporting and Complaint" and "Management Procedures for Encouraging Employees to Declare Conflicts of Interest". The total number of participants was 78 and the total number of training hours was 227.

Subsidiaries are required to strictly comply with the "Hong Kong Financial Reporting Standards" and strengthen random financial audit to prevent financial risks. Also, the Group has made its anti-corruption management requirements clear, expanded internal and external reporting channels and established a smooth and efficient management system to support employees to report directly on any suspected violation against integrity regulations. The identity of whistle-blower will be protected.

**Supplier management**

The Group requires its suppliers to include anti-bribery provisions in contracts so as to guarantee that their personnel (company employees, agents, negotiators or other designated personnel) will not make any direct or indirect bribery or other improper payments to the Group's employees and not engage in activities which are in contravention with business ethics and the "Anti–unfair Competition Law" (反不正當競爭法) and other laws and regulations. If a supplier is found to have violated any laws or commitments in the contract, the Group has the right to terminate any transaction with the suppliers involved.

The Group has authorized the human resources department to set up reporting telephone hotline and email address for external parties (including suppliers and customers) and to monitor violation against laws or regulations which involves individual unlawful profits and damage to the Group's reputable and economic benefits.

For the year ended 31 December 2021, the Group strictly complied with the relevant laws and regulations to prevent bribery, extortion, fraud and money laundering, including but not limited to, "Company Law of the People's Republic of China (中華人民共和國公司法)", "The Bidding Law of the People's Republic of China (中華人民共和國招標投標法)", "Criminal Law of the People's Republic of China (中華人民共和國刑法)", "Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法)" and "Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定)". The Group was not aware of any case related to corruption and bribery. There are no concluded legal cases regarding corrupt practices brought against the Group or its employees.

## Community Investment

Since its establishment, the Group has been actively devoted to social-charitable services. The Group bears in mind of its social responsibility in actively fostering good relationship with the communities where it operates and participates in the promotion of exchanges among enterprise in high-tech parks. However, as successive confirmed case of virus variants such as Delta and Omicron was found in different countries, and to avoid over-crowding in the premise, the Group did not participate in charitable activities in 2021.

# Independent Auditor's Report

**To the SHAREHOLDERS of RISECOMM GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Risecomm Group Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 80 to 157, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Revenue recognition***<br>*Refer to note 8 to the consolidated financial statements* | |
| During the year ended 31 December 2021, the Group has recognised revenue principally comprises:<br><br>— income from the sale of power-line-communication ("**PLC**") products;<br>— income from the provision of maintenance services in connection with the deployment and upgrade of Auto Meter Reading ("**AMR**") systems by power grid companies in Mainland China;<br>— income from the sale of production safety products;<br>— income from sale of software license;<br>— income from the provision of software post-contract support services; and<br>— income from construction contracts.<br><br>The Group recognises revenue when or as the Group satisfies its performance obligations by transferring the promised goods or delivering the promised services to the customer. Management evaluates the terms of individual contracts in order to determine the appropriate timing for revenue recognition in accordance with the prevailing accounting standards. Depending on those contractual terms, revenue is recognised at the specific point in time when control over the promised goods or service is transferred, or over a period of time as and when the customer consumes and benefits from the services delivered by the Group.<br><br>The Group also recognises construction contracts progressively over time by measuring progress towards satisfaction of its performance obligation using an input method based on the proportion of the actual costs incurred relative to the estimated total contract costs. | Our procedures included:<br><br>— Understanding, evaluating and validating management's control in respect of the Group's sales transactions from customers order's approval, goods delivery, sales recording, reconciliation of cash receipts and customer's records through to subsequent settlement of trade receivables;<br><br>— Testing the general control environment of the Group's information technology systems and the automatic controls that were related to revenue recording;<br><br>— Conducting testing of revenue recorded covering different locations and customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes;<br><br>— Confirming customers' balances and transactions on a sample basis, by considering the amount, nature and characteristics of those customers;<br><br>— Testing sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and customers' receipt notes, to assess whether revenue was recognised in the correct reporting periods;<br><br>— Understanding and evaluating management's process in estimation of the contract revenue, budget cost and determination of completion status of the construction contracts; |

## KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Revenue recognition*** *(Continued)*<br>*Refer to note 8 to the consolidated financial statements* | |
| We identified recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations. | Our procedures included:<br>— Agreeing the total contract value to the contracts and variation orders, if any, to customers' instructions or other form of agreements or other correspondences, on a sample basis;<br>— Evaluating the reasonableness of the estimated total contract costs by assessing the status of completion of the construction contracts, and comparing the actual costs incurred against management estimation; and<br>— Discussing with management the performance of contracts in progress during the year, on a sample basis, and challenging the key estimates and assumptions adopted in the forecasts for contract revenue and contract costs, including estimated costs to completion, the recognition of variation orders, by obtaining and evaluating relevant information in connection with the assumptions adopted. |
| ***Impairment of goodwill and intangible assets***<br>*Refer to note 21 and 22 to the consolidated financial statements* | |
| Goodwill and intangible assets with an indefinite useful life are tested for impairment annually.<br>For goodwill and intangible assets with indefinite useful lives where indicators of impairment were identified, management assessed the recoverable amounts of the separately identifiable cash generating unit ("**CGU**") to which the relevant assets were allocated based on value-in-use calculations using discounted cash flow forecasts. An independent appraiser was engaged by management to prepare the discounted cash flow forecasts in order for management to assess impairment.<br>The preparation of discounted cash flow forecasts involves the exercise of significant judgement, in particular in forecasting revenue growth rates and in determining long-term growth rates, inflation rates and the discount rates applied.<br>We identified assessing impairment of goodwill and intangible assets as a key audit matter because of its significance to the consolidated financial statements and because of the high level of judgement involved in making assumptions about factors which can be inherently uncertain and could be subject to management bias. | Our procedures included:<br>— Assessing management's identification of CGUs, the amounts of goodwill and intangible assets allocated to each CGU and, with the assistance of our internal valuation specialists, the impairment assessment methodology adopted by management with reference to the requirements of the prevailing accounting standards;<br>— Evaluating the competence, capabilities and objectivity of the independent appraiser engaged by the Company to prepare discounted cash flow forecasts to help management assess the value-in-use of the relevant CGUs;<br>— Obtaining the independent valuation report from the independent appraiser engaged by management and comparing key inputs in the calculations, which include revenue growth rates, gross profit ratios and working capital assumptions, with the financial budget approved by the directors, available relevant external data and our own views based on our experience and knowledge of the industry in which the Group operates;<br>— Checking the mathematical accuracy of the value in use calculation; and<br>— Assessing the appropriateness of the valuation methodology and discount rate adopted. |

## KEY AUDIT MATTERS *(Continued)*

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| ***Impairment of trade receivables***<br>*Refer to note 28 to the consolidated financial statements*<br><br>As described in note 5(e) to the consolidated financial statements, the impairment of trade and other receivables is considered a key source of estimation uncertainty. Details of allowance for impairment of trade and other receivables are disclosed in note 28 to the consolidated financial statements.<br><br>We identified the impairment of trade and other receivables as a key audit matter due to the significant management estimation and judgement required in determining the expected credit losses. | Our procedures included:<br><br>— Assessing whether trade receivables were appropriately grouped by the management into categories with shared credit risk characteristics;<br><br>— Testing on a sample basis the accuracy and completeness of the data used by the management to develop historical loss rates and assessing the sufficiency, relevance and reliability of that data;<br><br>— Testing on a sample basis the aging of trade receivables; and<br><br>— With the assistance of our in-house valuation specialists.<br><br>(a) assessing the appropriateness of the impairment model used by the Group;<br><br>(b) assessing the appropriateness of forward-looking adjustments to historical loss rates;<br><br>(c) testing the calculation of historical loss rates; and<br><br>(d) testing the calculation of the expected credit loss provisions. |

## OTHER INFORMATION

The Directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified above and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the Directors in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Kwok Keung.

**RSM Hong Kong**
*Certified Public Accountants*
29 March 2022

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

| | Note | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 8 | **248,154** | 212,734 |
| Cost of sales | | **(205,149)** | (179,200) |
| **Gross profit** | | **43,005** | 33,534 |
| Other income, gains/(losses) | 9 | **6,169** | 8,052 |
| Reversal/(allowance) for impairment losses on financial assets, net | | **10,271** | (27,940) |
| Selling and marketing expenses | | **(24,728)** | (19,131) |
| General and administrative expenses | | **(60,762)** | (77,184) |
| Research and development expenses | | **(19,596)** | (21,712) |
| **Loss from operations** | | **(45,641)** | (104,381) |
| Impairment losses of goodwill | | **–** | (23,256) |
| Finance costs | 11 | **(9,487)** | (9,928) |
| Share of results of an associate | | **(42)** | 25 |
| Fair value losses on financial instruments at fair value | 7(c) | **(6,916)** | (15,442) |
| **Loss before tax** | | **(62,086)** | (152,982) |
| Income tax credit | 12 | **6,833** | 26,948 |
| **Loss for the year attributable to owners of the Company** | | **(55,253)** | (126,034) |
| **Loss per share attributable to owners of the Company** | | | |
| Basic and diluted (RMB cents) | 18 | **(5.05)** | (12.77) |
| Loss for the year | | **(55,253)** | (126,034) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of financial statements of entities outside mainland China | | **7,407** | 12,926 |
| **Total comprehensive loss for the year** | | **(47,846)** | (113,108) |
| Attributable to: | | | |
| Owners of the Company | | **(47,846)** | (113,108) |

# Consolidated Statement of Financial Position

At 31 December 2021

| | Note | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **20,251** | 24,330 |
| Right-of-use assets | 20 | **10,310** | 14,218 |
| Goodwill | 21 | **20,718** | 20,718 |
| Intangible assets | 22 | **119,050** | 141,540 |
| Interest in an associate | 24 | **–** | 42 |
| Deferred tax assets | 35 | **37,967** | 35,915 |
| **Total non-current assets** | | **208,296** | 236,763 |
| **Current assets** | | | |
| Inventories | 25 | **15,890** | 22,501 |
| Contract costs | 26 | **786** | 5,831 |
| Contract assets | 27 | **33,987** | – |
| Trade and other receivables | 28 | **120,777** | 131,585 |
| Restricted bank deposits | 29 | **104** | – |
| Bank and cash balances | 29 | **91,705** | 121,669 |
| **Total current assets** | | **263,249** | 281,586 |
| **TOTAL ASSETS** | | **471,545** | 518,349 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 30 | **151** | 86 |
| Reserves | 32 | **193,648** | 114,255 |
| **Total equity** | | **193,799** | 114,341 |

# Consolidated Statement of Financial Position *(continued)*

At 31 December 2021

| | Note | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income | 33 | **1,624** | 2,985 |
| Lease liabilities | 34 | **7,248** | 10,238 |
| Deferred tax liabilities | 35 | **28,108** | 33,662 |
| Other borrowing | 36 | **4,904** | – |
| **Total non-current liabilities** | | **41,884** | 46,885 |
| **Current liabilities** | | | |
| Trade and other payables | 37 | **100,951** | 79,445 |
| Contract liabilities | 38 | **10,586** | 31,133 |
| Lease liabilities | 34 | **3,774** | 4,488 |
| Acquisition consideration payables | 39 | **–** | 120,520 |
| Convertible bonds | 40 | **117,590** | 119,076 |
| Income tax payables | | **2,961** | 2,461 |
| **Total current liabilities** | | **235,862** | 357,123 |
| **TOTAL EQUITY AND LIABILITIES** | | **471,545** | 518,349 |

Approved by the Board of Directors on 29 March 2022 and are signed on its behalf by:

**Yue Jingxing**
*Director*

**Lau Wai Leung, Alfred**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 30) | Share premium RMB'000 (note 32(b)(i)) | Capital reserve RMB'000 (note 32(b)(ii)) | Statutory reserve RMB'000 (note 32(b)(iii)) | Exchange reserve RMB'000 (note 32(b)(iv)) | Retained earnings/ (accumulated losses) RMB'000 | Total Equity RMB'000 |
| At 1 January 2020 | 86 | 231,362 | 132,614 | 22,326 | 8,543 | (169,786) | 225,145 |
| Total comprehensive losses for the year | – | – | – | – | 12,926 | (126,034) | (113,108) |
| Equity-settled share-based payments (note 41) | – | – | 2,304 | – | – | – | 2,304 |
| Share options forfeited (note 41) | – | – | (1,745) | – | – | 1,745 | – |
| Appropriation to reserves | – | – | – | 372 | – | (372) | – |
| Changes in equity for the year | – | – | 559 | 372 | 12,926 | (124,661) | (110,804) |
| At 31 December 2020 | 86 | 231,362 | 133,173 | 22,698 | 21,469 | (294,447) | 114,341 |
| At 1 January 2021 | **86** | **231,362** | **133,173** | **22,698** | **21,469** | **(294,447)** | **114,341** |
| Total comprehensive losses for the year | **–** | **–** | **–** | **–** | **7,407** | **(55,253)** | **(47,846)** |
| Equity-settled share-based payments (note 41) | **–** | **–** | **817** | **–** | **–** | **–** | **817** |
| Share options forfeited (note 41) | **–** | **–** | **(1,774)** | **–** | **–** | **1,774** | **–** |
| Appropriation to reserves | **–** | **–** | **–** | **599** | **–** | **(599)** | **–** |
| Share subscription (note 30(a)) | **17** | **27,736** | **–** | **–** | **–** | **–** | **27,753** |
| Less: Share issue expenses | **–** | **(134)** | **–** | **–** | **–** | **–** | **(134)** |
| Rights issue (note 30(b)) | **48** | **100,389** | **–** | **–** | **–** | **–** | **100,437** |
| Less: rights issue expenses | **–** | **(1,569)** | **–** | **–** | **–** | **–** | **(1,569)** |
| Changes in equity for the year | **65** | **126,422** | **(957)** | **599** | **7,407** | **(54,078)** | **79,458** |
| At 31 December 2021 | **151** | **357,784** | **132,216** | **23,297** | **28,876** | **(348,525)** | **193,799** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| | Note | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before taxation | | **(62,086)** | (152,982) |
| Adjustments for: | | | |
| Finance costs | 11 | **9,487** | 9,928 |
| Share of (profit)/loss of associate | | **42** | (25) |
| Depreciation of property, plant and equipment | 19 | **4,499** | 5,034 |
| Depreciation of right-of-use assets | 20 | **4,782** | 7,414 |
| Amortisation of intangible assets | 22 | **22,658** | 34,204 |
| Loss on disposal of property, plant and equipment | | **174** | 45 |
| Loss on disposal of right-of-use assets | | **22** | – |
| Equity-settled share-based payment | | **817** | 2,304 |
| Fair value loss on financial instruments at fair value | 7(c) | **6,916** | 15,442 |
| (Reversal)/allowance for impairment losses of financial assets, net | | **(10,271)** | 27,940 |
| Impairment losses of intangible assets | | **–** | 4,708 |
| Impairment losses of goodwill | 21 | **–** | 23,256 |
| Impairment losses of an associate | 24 | **–** | 379 |
| Write-down of inventories | | **2,546** | 2,119 |
| Interest income from bank deposits | 9 | **(1,367)** | (2,523) |
| Gain on lease modification | 9 | **–** | (134) |
| COVID-19 related concessions received | 9 | **–** | (248) |
| Net foreign exchange loss/(gain) | 9 | **344** | (152) |
| Operating loss before working capital changes | | **(21,437)** | (23,291) |
| Decrease in inventories | | **4,065** | 1,077 |
| Decrease in contract costs | | **5,045** | 23,289 |
| Increase in contract assets | | **(33,987)** | – |
| Decrease/(increase) in trade and other receivables | | **21,079** | (33,309) |
| (Increase)/decrease in restricted bank deposits | | **(104)** | 326 |
| Increase in trade and other payables | | **21,506** | 1,133 |
| (Decrease)/increase in contract liabilities | | **(20,547)** | 21,477 |
| Decrease in deferred income | | **(1,361)** | (1,849) |
| Cash used in operations | | **(25,741)** | (11,147) |
| Income tax (paid)/refund | | **(273)** | 437 |
| Interest on lease liabilities | | **(616)** | (747) |
| Net cash used in operating activities | | **(26,630)** | (11,457) |

For the year ended 31 December 2021

| | Note | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **1,367** | 2,523 |
| Redemption of acquisition consideration payable | | **(116,800)** | – |
| Purchase of property, plant and equipment | | **(1,406)** | (981) |
| Purchase of intangible assets | | **(168)** | – |
| Proceeds from disposal of property, plant and equipment | | **812** | 111 |
| Net cash generated from investing activities | | **(116,195)** | 1,653 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment for interest on convertible bonds | | **(4,954)** | (5,185) |
| Payment for interest on acquisition consideration payable | | **(8,998)** | – |
| Net proceeds from rights issue | | **98,868** | – |
| Net proceeds from share subscription | | **27,619** | – |
| Borrowing raised | | **4,741** | – |
| Principal element of lease payment | | **(4,552)** | (7,066) |
| Net cash used in financing activities | | **112,724** | (12,251) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(30,101)** | (22,055) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **137** | (1,386) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **121,669** | 145,110 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **91,705** | 121,669 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | | **91,705** | 121,669 |

## 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 set out in note 23 to the consolidated financial statements.

## 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.

## 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 2021 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phrase 2 |

In addition, the Group has early applied the Amendments to HKFRS 16, COVID-19 Related Rent Concessions beyond 30 June 2021.

Except as described below, 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.

**Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform — Phrase 2**

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("**IBOR reform**").

The application of the amendments had no impact on the consolidated financial statements.

**Amendment to HKFRS 16, COVID-19 Related Rent Concessions**

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("**COVID-19 Related Rent Concessions**") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The application of the amendments had no impact on the consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

Other than the amendments to HKFRS 16, COVID-19 Related Rent Concessions beyond 30 June 2021, the Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2021. These new and revised HKFRSs include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKFRS 3 *Business Combination — Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to HKAS 16 *Property, Plant and Equipment: Proceeds before Intended Use* | 1 January 2022 |
| Amendments to HKAS 37 *Onerous Contracts — Cost of Fulfilling a Contract* | 1 January 2022 |
| Annual Improvements to HKFRSs 2018–2020 Cycle | 1 January 2022 |
| Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* | 1 January 2023 |
| Amendments to HKAS 1 *Presentation of Financial Statements* and HKFRS Practice Statement 2 *Making Materiality Judgements — Disclosure of Accounting Policies* | 1 January 2023 |
| Amendments to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates* | 1 January 2023 |
| Amendments to HKAS 12 *Income Taxes — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* | 1 January 2023 |

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. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary; and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sale).

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### (c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Associates *(Continued)*

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate; and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Foreign currency translation

**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), the functional currency of the Company is Hong Kong dollars. The Directors consider that choosing Renminbi as the presentation currency best suits the needs of the shareholders and investors.

**(ii) Transactions and balances in each entity's financial statements**

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Foreign currency translation *(Continued)*

**(ii) Transactions and balances in each entity's financial statements** *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

**(iii) Translation on consolidation**

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (e) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 5% |
| Leasehold improvements | 20%–33.3% |
| Machinery and equipment | 10%–20% |
| Office and other equipment | 20%–33.3% |
| Motor vehicles | 12.5%–25% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### (f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

**(i) The Group as a lessee**

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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. 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.

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.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Leases *(Continued)*

**(i) The Group as a lessee** *(Continued)*

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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification. If this is such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative lease payments in profit or loss in the period in which the event or condition that triggers the recent concessions occurred.

**(ii) The Group as a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

### (g) Intangible assets

**(i) Internally-generated intangible assets — research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's AMR business' development is recognised only if all of the following conditions are met:

— The technical feasibility of completing the intangible asset so that it will be available for use or sale;

— Management intends to complete the intangible asset and use or sell it;

— There is ability to use or sell the intangible asset;

— It can be demonstrated how the intangible asset will generate probable future economic benefits;

— Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available;

— The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Intangible assets *(Continued)*

**(ii) Intangible assets acquired separately**

Other intangible assets represent the software and other intangible assets identified in acquisitions which are stated in the consolidated statement of financial position, being amortised on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

| | |
|---|---|
| Software and others | 3–10 years |
| Non-compete undertaking | 5–7 years |
| Customer relationships | 3–10 years |
| Unfulfilled contracts | 2 years |

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any impairment losses.

Both the estimated useful life and method of amortisation are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("**ECL**") in accordance with the policy set out in note 4(aa) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

### (k) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on volatile organic compounds related assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

The Group becomes entitled to invoice customers for construction of properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by an assessor of the customers and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**") are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (m) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

**Debt investments**

Debt investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— fair value through other comprehensive income ("**FVTOCI**") — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Financial assets *(Continued)*

**Equity investments**

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

### (n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

### (o) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL.

### (p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (q) Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

The Group has designated the convertible bonds with conversion option derivative held by the bond holders as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income, unless the recognition of the effects of changes in the credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss, they are transferred to accumulated losses upon derecognition.

### (r) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (t) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (u) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

**(i) AMR and other business**

Revenue from the sale of goods is recognised at a point in time when the customer takes possession of and accept the products.

Revenue from the maintenance services is recognised at a point in time when the service is rendered and control over the service is transferred to the customers upon customer's acknowledgement of service rendered.

**(ii) Smart manufacturing & industrial automation ("SMIA") business**

Revenue from the software licenses is recognised at the point in time when the license software is delivered and accepted by the customers. In cases where the Group allocates revenue to post-contract customer support, primarily because the support is provided at no additional charge, revenue is recognised as the support is provided, which is generally ratably over the service period of the related software.

**(iii) Construction contract income**

Revenue from construction contracts is recognised in accordance with the policy set out in note 4(k) above.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

### (v) Employee benefits

**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The Group operates various post-employment schemes, including defined contribution pension plans.

**(ii) Pension obligations**

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Employee benefits *(Continued)*

**(iii) Termination benefits**

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

### (w) Share-based payments

The Group issues equity-settled share-based payments to certain Directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

### (x) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

### (y) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (y) Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group firstly determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (z) Impairment of non-financial assets

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss and other comprehensive income to its estimated recoverable amount unless the relevant asset is carried at a revalued amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGU are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) Impairment of financial assets

The Group recognises allowances for impairment for ECL on trade and bills receivables and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and bills receivables and assessed individually. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instruments. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

**Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk for a particular financial instrument;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor;

— significant increases in credit risk on other financial instruments of the same debtor; or

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) Impairment of financial assets *(Continued)*

**Significant increase in credit risk** *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default;

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; or

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

**Definition of default**

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

— when there is a breach of financial covenants by the counterparty; or

— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

**Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

— significant financial difficulties of the issuer or the counterparty;

— a breach of contract, such as a default or past due event;

— the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

— it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) Impairment of financial assets *(Continued)*

**Write-off policy**

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment loss or reversal of an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account.

### (bb) Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (cc) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### (dd) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

**(a) Distinction between investment properties and owner-occupied properties**

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production of goods. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of goods. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

**(b) Significant increase in credit risk**

As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

**(c) Determining 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.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 20 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. During the current financial year, no lease term has been reassessed.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**(a) Income taxes**

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, RMB6,833,000 of income tax credit was recognised to profit or loss based on mainly the net effect of recognition of deferred tax asset and derecognition of deferred tax liability (2020: income tax credit of RMB26,948,000 was recognised to profit or loss based on mainly the net effect of recognition of deferred tax asset and derecognition of deferred tax liability).

**(b) Revenue and profit recognition**

As explained in policy notes 4(k) and 4(u), revenue from construction contract and from post-contract customer support service are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the Group's recent experience and the nature of the services and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract costs disclosed in note 26 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

During the year, RMB94,488,000 (2020: RMB103,450,000) of revenue from post-contract customer support service and construction contracts was recognised.

**(c) Impairment of intangible assets, property, plant and equipment, and right-of-use assets**

Intangible assets, property, plant and equipment, and right-of-use assets are stated at costs less accumulated amortisation and depreciation, and any impairment. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether any events have occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The carrying amount of intangible assets, property, plant and equipment, and right-of-use assets as at 31 December 2021 were RMB119,050,000 (2020: RMB141,540,000), RMB20,251,000 (2020: RMB24,330,000) and RMB10,310,000 (2020: RMB14,218,000) respectively.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

**(d) Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

The carrying amount of goodwill at the end of the reporting period was RMB20,718,000 (2020: RMB20,718,000) after an impairment loss of Nil (2020: RMB23,256,000) was recognised during the year. Details of the impairment loss calculation are provided in note 21 to the consolidated financial statements.

**(e) Impairment of trade and other receivables**

The management of the Group estimates the amount of impairment losses for ECL on trade and other receivables based on the credit risk of trade and other receivables. The amount of the impairment losses of trade and other receivables based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2021, the carrying amount of trade and other receivables is RMB120,777,000 (net of allowance for impairment of RMB59,895,000) (2020: RMB131,585,000 (net of allowance for impairment of RMB85,798,000)).

**(f) Allowance for slow-moving inventories**

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance of RMB2,546,000 for slow-moving inventories was made for the year ended 31 December 2021 (2020: RMB1,296,000)

**(g) Warranty provisions**

The Group makes provisions under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency, Hong Kong dollars and RMB, of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise. The currency giving rise to this risk is primarily United States Dollars ("**USD**").

At 31 December 2021, if the RMB had weakened 5 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been RMB137,000 (2020: RMB472,000) higher, arising mainly as a result of the foreign exchange loss on cash and bank balances and trade and other payables denominated in USD. If the RMB had strengthened 5 per cent against USD with all other variables held constant, consolidated loss after tax for the year would have been RMB137,000 (2020: RMB472,000) lower, arising mainly as a result of the foreign exchange gain on cash and bank balances and trade and other payables denominated in USD.

### (b) Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances, acquisition consideration payables and convertible bonds. The Group's acquisition consideration payables and convertible bonds bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its bank balances. These bank balances bear interests at variable rates that vary with the then prevailing market condition.

At 31 December 2021, if interest rates had been 100 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB776,000 (2020: RMB1,025,000) lower, arising mainly as a result of lower interest income on bank balances. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB776,000 (2020: RMB1,025,000) higher, arising mainly as a result of higher interest income on bank deposits.

### (c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and bills receivables) and from its financing activities, including deposits with banks. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

**Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 18.2% (2020: 30.56%) and 52.9% (2020: 51.7%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are usually due within 180 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures allowance for impairment of trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance for impairment of trade and bills receivables based on historical credit loss experience is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2021:

| | 2021 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category I** | | | |
| Within 6 months | 7.0 | 3,948 | 275 |
| After 6 months but within 1 year | 13.2 | 660 | 87 |
| After 1 year but within 2 years | 29.5 | 1,358 | 400 |
| After 2 years but within 3 years | 88.8 | 277 | 246 |
| After 3 years | 100.0 | 287 | 287 |
| Individually impaired | 100.0 | 6,423 | 6,423 |
| | | 12,953 | 7,718 |

| | 2021 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category II** | | | |
| Within 6 months | 11.7 | 197 | 23 |
| After 6 months but within 1 year | 17.0 | 3,412 | 579 |
| After 1 year but within 2 years | 39.2 | 561 | 220 |
| After 2 years but within 3 years | 83.8 | 1,548 | 1,297 |
| After 3 years | 100.0 | 190 | 190 |
| Individually impaired | 100.0 | 14,199 | 14,199 |
| | | 20,107 | 16,508 |

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

| | 2021 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category III** | | | |
| Within 6 months | 2.7 | 661 | 18 |
| After 6 months but within 1 year | 8.9 | 326 | 29 |
| After 1 year but within 2 years | 12.9 | 295 | 38 |
| After 2 years but within 3 years | 50.7 | 148 | 75 |
| After 3 years | 100.0 | 4,160 | 4,160 |
| Individually impaired | 100.0 | 9,571 | 9,571 |
| | | 15,161 | 13,891 |

| | 2021 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category IV** | | | |
| Within 6 months | 0.0 | 2,819 | – |
| After 6 months but within 1 year | 0.0 | 1,531 | – |
| After 1 year but within 2 years | 36.1 | 3,617 | 1,305 |
| After 2 years but within 3 years | 0.0 | – | – |
| After 3 years | 100.0 | – | – |
| Individually impaired | 100.0 | 4,629 | 4,629 |
| | | 12,596 | 5,934 |

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

| | 2021 | | |
|---|---|---|---|
| | **Expected loss rate %** | **Gross carrying amount RMB'000** | **Allowance for impairment of trade and bills receivable RMB'000** |
| **Risk Category V** | | | |
| Within 6 months | **2.2** | **63,199** | **1,369** |
| After 6 months but within 1 year | **12.7** | **260** | **33** |
| After 1 year but within 2 years | **32.4** | **15,344** | **4,975** |
| After 2 years but within 3 years | **92.8** | **899** | **834** |
| After 3 years | **100.0** | **5,338** | **5,338** |
| Individually impaired | **100.0** | **377** | **377** |
| | | **85,417** | **12,926** |

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2020:

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category I** | | | |
| Within 6 months | 3.0 | 5,350 | 161 |
| After 6 months but within 1 year | 10.0 | 440 | 44 |
| After 1 year but within 2 years | 25.0 | 529 | 132 |
| After 2 years but within 3 years | 50.0 | 244 | 122 |
| After 3 years | 100.0 | 337 | 337 |
| Individually impaired | 100.0 | 29,432 | 29,432 |
| | | 36,332 | 30,228 |

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category II** | | | |
| Within 6 months | 3.0 | 1,082 | 32 |
| After 6 months but within 1 year | 10.0 | 446 | 45 |
| After 1 year but within 2 years | 50.0 | 2,239 | 1,119 |
| After 2 years but within 3 years | 90.0 | 1,107 | 997 |
| After 3 years | 100.0 | 613 | 613 |
| Individually impaired | 100.0 | 13,557 | 13,557 |
| | | 19,044 | 16,363 |

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category III** | | | |
| Within 6 months | 5.0 | 5,495 | 274 |
| After 6 months but within 1 year | 10.0 | 1,438 | 144 |
| After 1 year but within 2 years | 35.0 | 2,343 | 820 |
| After 2 years but within 3 years | 90.0 | 5,624 | 5,062 |
| After 3 years | 100.0 | 2,110 | 2,110 |
| Individually impaired | 100.0 | 15,860 | 15,860 |
| | | 32,870 | 24,270 |

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category IV** | | | |
| Within 6 months | 0.0 | – | – |
| After 6 months but within 1 year | 10.0 | 3,618 | 362 |
| After 1 year but within 2 years | 0.0 | – | – |
| After 2 years but within 3 years | 50.0 | 40 | 20 |
| After 3 years | 100.0 | 160 | 160 |
| Individually impaired | 100.0 | 4,469 | 4,469 |
| | | 8,287 | 5,011 |

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Allowance for impairment of trade and bills receivable RMB'000 |
| **Risk Category V** | | | |
| Within 6 months | 0.5 | 54,229 | 290 |
| After 6 months but within 1 year | 4.4 | 1,827 | 80 |
| After 1 year but within 2 years | 8.3 | 2,467 | 204 |
| After 2 years but within 3 years | 24.9 | 554 | 138 |
| After 3 years | 90.2 | 7,136 | 6,435 |
| Individually impaired | 100.0 | 379 | 379 |
| | | 66,592 | 7,526 |

Expected loss rates are based on actual loss experience over the historical default data. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Credit risk *(Continued)*

**Trade and other receivables** *(Continued)*

Movements in the (reversal)/allowance for impairment losses of trade receivables during the years are as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| At 1 January | **83,398** | 56,168 |
| Amount written off during the year | **(15,632)** | – |
| (Reversal)/allowances for impairment losses recognised for the year | **(10,789)** | 27,230 |
| At 31 December | **56,977** | 83,398 |

The significant changes in the allowance for impairment losses for trade receivables was contributed by the settlement of the long aged trade receivables during 2021.

**Other receivables**

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| At 1 January | **2,400** | 1,733 |
| Impairment losses recognised for the year | **518** | 710 |
| Foreign currency exchange adjustment | **–** | (43) |
| At 31 December | **2,918** | 2,400 |

The Group's exposure to ECLs for contract assets as at 31 December 2021 are estimated as immaterial.

## 6. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

| | Within 1 year or on demand RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 31 December 2021** | | | | |
| Trade and other payables | **100,951** | **–** | **–** | **100,951** |
| Convertible bonds | **127,546** | **–** | **–** | **127,546** |
| Other borrowing | **–** | **5,213** | **–** | **5,213** |
| Lease liabilities | **4,225** | **4,158** | **3,472** | **11,855** |
| | **232,722** | **9,371** | **3,472** | **245,565** |
| **At 31 December 2020** | | | | |
| Trade and other payables | 79,445 | – | – | 79,445 |
| Convertible bonds | 131,290 | – | – | 131,290 |
| Acquisition consideration payables | 129,668 | – | – | 129,668 |
| Lease liabilities | 5,090 | 3,735 | 7,304 | 16,129 |
| | 345,493 | 3,735 | 7,304 | 356,532 |

### (e) Categories of financial instruments at 31 December

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| **Financial assets:** | | |
| Financial assets measured at amortised cost | **220,721** | 216,956 |
| **Financial liabilities:** | | |
| Financial liabilities at fair value through profit or loss | **117,590** | 119,076 |
| Financial liabilities measured at amortised cost | **108,795** | 212,154 |

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

During the years ended 31 December 2021 and 2020, there was no transfer between Level 2 and Level 3. The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value. Further, for the current period the fair value disclosure of lease liabilities is also not required.

### (a) Disclosures of level in fair value hierarchy

| Description | Fair value measurements as at 31 December 2021 Level 3 RMB'000 |
|---|---|
| Recurring fair value measurements: | |
| Financial liabilities | |
| Convertible bonds | **117,590** |

| Description | Fair value measurements as at 31 December 2020 Level 3 RMB'000 |
|---|---|
| Recurring fair value measurements: | |
| Financial liabilities | |
| Convertible bonds | 119,076 |

## 7. FAIR VALUE MEASUREMENTS *(Continued)*

### (b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2021:

The Group has a financial reporting team performing valuations for the financial instruments. The team reports directly to the Financial Director for these fair value measurements. Discussions of valuation processes and results are held between the Financial Director and the Board of Directors twice a year, to coincide with the reporting dates. The Group engages external valuation firms to perform valuations for its financial instruments where necessary.

For level 3 fair value measurement, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

**Level 3 fair value measurements**

| Description | Valuation technique | Unobservable inputs | Range 2021 | 2020 | Effect on fair value for increase of inputs | Fair value 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|---|---|---|---|
| | | | | | | **Liabilities** | |
| Convertible bonds | Option pricing model | Expected volatility | **56.9%** | 44.4% | Decrease | **117,590** | 119,076 |
| | | Discounted rate | **14.3%** | 17.5% | Decrease | | |

During the two years, there were no changes in the valuation techniques used.

### (c) Fair value losses on financial instruments at fair value

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Change in fair value of convertible bonds (note 40) | **(6,916)** | (15,442) |

## 8. 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.

## 8. REVENUE *(Continued)*

### (a) Disaggregation of revenue

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

| | 2021<br>RMB'000 | 2020<br>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**") | **19,137** | 13,592 |
| — PLC Modules | **1,139** | 4,786 |
| — Other products | **15,572** | 20,706 |
| — AMR maintenance services | **12,434** | 15,614 |
| Sub-total of AMR and other business | **48,282** | 54,698 |
| SMIA business | | |
| — Software license | **82,492** | 32,090 |
| — Production safety products | **22,892** | 22,496 |
| Sub-total of SMIA business | **105,384** | 54,586 |
| **Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time** | | |
| Disaggregated by major products or service lines: | | |
| — Post-contract customer support service | **2,668** | 4,551 |
| — Construction contracts | **91,820** | 98,899 |
| Sub-total of SMIA business | **94,488** | 103,450 |
| **Total** | **248,154** | 212,734 |

## 8. REVENUE (Continued)

### (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 2021 and the expected timing of recognising revenue as follows:

| | Software license | | Post-contract customer support service | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **34,294** | 22,766 | **2,075** | 2,668 |
| More than one year but not more than two years | **31,181** | 18,679 | **–** | 2,075 |
| More than two years | **31,229** | 15,566 | **–** | 1,730 |
| | **96,704** | 57,011 | **2,075** | 6,473 |

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for software license, post-contract customer support service and 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 contracts for software license and post-contract customer support service that had an original expected duration of between one to four years.

## 9. OTHER INCOME, GAINS/(LOSSES)

| | **2021** | 2020 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest income from bank deposits | **1,367** | 2,523 |
| Government grant | | |
| — Unconditional subsidies (note (a)) | **3,299** | 2,811 |
| — Conditional subsidies (note (b)) | **1,360** | 2,005 |
| Loss on disposals of property, plant and equipment | **(175)** | (45) |
| Net foreign exchange (loss)/gains | **(344)** | 152 |
| Rental income | **493** | 211 |
| COVID-19 rental concession (note 20) | **–** | 248 |
| Gain on lease modification | **–** | 134 |
| Others | **169** | 13 |
| | **6,169** | 8,052 |

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 on amount of approximately RMB1,360,000 (2020: approximately RMB1,849,000) of government grants in respect of the acquisition of plant and equipments for supporting research and development stages related subsidies. For the year ended 31 December 2020, the Group has recognised RMB156,000 (equivalent to HK$180,000) relates to Employment Support Scheme provided by the Hong Kong government.

## 10. 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 operating segments, which are (a) AMR and other business; and (b) SMIA business.

The Group's operating and 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.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include unallocated general and administrative expenses, share of result of an associate, other income, gains/(losses), fair value (losses)/gains on financial instruments at fair value, finance costs, allowance 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.

## 10. SEGMENT INFORMATION *(Continued)*

### (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 2021 and 2020 is as follows:

| **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** |
| Impairment of intangible assets identified in acquisitions | **–** | **–** | **–** |
| Impairment losses of goodwill | **–** | **–** | **–** |

| Year ended 31 December 2020 | AMR and other business RMB'000 | SMIA business RMB'000 | Total RMB'000 |
|---|---|---|---|
| Revenue | 54,698 | 158,036 | 212,734 |
| Cost of Sales | (36,510) | (142,690) | (179,200) |
| Selling and marketing expenses | (10,967) | (8,164) | (19,131) |
| Research and development expenses | (18,119) | (3,593) | (21,712) |
| Reportable segment results | (10,898) | 3,589 | (7,309) |
| Amortisation expenses of intangible assets identified in acquisitions | 5,342 | 27,174 | 32,516 |
| Impairment of intangible assets identified in acquisitions | 4,708 | – | 4,708 |
| Impairment losses of goodwill | 23,256 | – | 23,256 |

## 10. SEGMENT INFORMATION *(Continued)*

### (b) Reconciliations of segment revenue and profit or loss

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Reportable segment results | **(1,319)** | (7,309) |
| Other income, gains/(losses) | **6,169** | 8,052 |
| General and administrative expenses | **(60,762)** | (77,184) |
| Finance costs | **(9,487)** | (9,928) |
| Share of results of an associate | **(42)** | 25 |
| Reversal/(allowance) for impairment losses of financial assets, net | **10,271** | (27,940) |
| Impairment losses of goodwill | **–** | (23,256) |
| Fair value losses on financial instruments at fair value | **(6,916)** | (15,442) |
| Loss before taxation | **(62,086)** | (152,982) |

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:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| SMIA business | | |
| — Customer A (note) | **–** | 88,228 |
| — Customer B | **36,313** | 34,792 |
| — Customer C | **91,580** | – |
| — Customer D | **28,118** | – |

Note: Revenue from this customer for the year ended 31 December 2021 did not contribute over 10% of the total revenue.

## 11. FINANCE COSTS

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Interest expenses on promissory notes (note 39) | **8,793** | 9,181 |
| Interest expenses on lease liabilities | **616** | 747 |
| Interest expenses on other borrowing | **78** | – |
| | **9,487** | 9,928 |

## 12. INCOME TAX CREDIT

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Current tax | | |
| Provision for the year | **787** | 1,238 |
| Over-provision in prior years | **(14)** | (1,670) |
| Reversal of provision for permanent establishment risk | **–** | (3,586) |
| | **773** | (4,018) |
| Deferred tax (note 35) | | |
| Over-provision in prior years | **(2,157)** | – |
| Changes in temporary differences | **(5,449)** | (22,930) |
| | **(7,606)** | (22,930) |
| | **(6,833)** | (26,948) |

Under the two-tiered Profits Tax regime, the first HK$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5%.

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% except as follows. Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WOFE**"), a PRC subsidiary of the Group, was entitled to the preferential tax rate of 15% from years 2019 to 2021, being accredited as a High and New Technology Enterprise according to the PRC Corporate Income Tax Law and its relevant regulations. As Risecomm WFOE has renewed the qualification of High and New Technology Enterprise and approved on 9 December 2019 with an effective period of three years starting from 2019, and therefore the tax rate used to recognise deferred tax assets and liabilities as at 31 December 2021 was 15%.

Pursuant to the rules and regulations of the Cayman Islands and Seychelles, the Group is not subject to any income tax in the Cayman Islands and Seychelles.

Under the PRC Corporate Income Tax Law and its relevant regulations, 75% additional tax deduction is allowed for qualified research and development costs for year 2021 (2020: 75%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 12. INCOME TAX CREDIT *(Continued)*

The corporate income tax provision related to PRC permanent establishment tax risk arising was reversed as at 31 December 2020 as the related subsidiary of the Group has ceased to create a permanent establishment risk in the PRC and the relevant PRC permanent establishment tax risk has become remote. As a result, tax provision of RMB Nil was released in the year end 31 December 2021 (2020: RMB3,586,000).

The reconciliation between the income tax credit and the product of loss before tax multiplied by the respective applicable tax rates is as follows:

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Loss before tax | **(62,086)** | (152,982) |
| Tax at the respective applicable tax rates | **(8,666)** | (22,731) |
| Tax effect of preferential tax rate | **349** | 2,829 |
| Tax effect of expenses that is not deductible | **461** | 661 |
| Additional deduction for qualified research and development costs | **(1,809)** | (1,833) |
| Tax effect of non-taxable incomes | **–** | (26) |
| Tax effect of other temporary differences not recognised | **(503)** | 582 |
| Tax effect of unrecognised tax losses utilised | **(58)** | (154) |
| Tax effect of unused tax losses not recognised in prior year | **–** | (1,116) |
| Tax effect of tax losses not recognised | **5,564** | 96 |
| Over-provision in prior years | **(2,171)** | (1,670) |
| Reversal of provision for permanent establishment tax risk | **–** | (3,586) |
| Income tax credit | **(6,833)** | (26,948) |

## 13. LOSS FOR THE YEAR

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Amortisation of intangible assets (note 22) | **22,658** | 34,204 |
| Cost of inventories sold | **40,201** | 41,476 |
| Cost of AMR maintenance services | **9,380** | 9,009 |
| Cost of software license sold | **64,864** | 26,424 |
| Cost of post-contract customer support | **2,133** | 3,323 |
| Cost of construction project | **86,025** | 96,849 |
| Depreciation of property, plant and equipment (note 19) | **4,499** | 5,034 |
| Depreciation of right-of-use asset (note 20) | **4,782** | 7,414 |
| Loss on disposals of property, plant and equipment (note 9) | **175** | 45 |
| Gain on lease modification (note 9) | **–** | (134) |
| COVID-19 rental concession (note 9) | **–** | (248) |
| Staff costs (note 14) | **36,290** | 40,532 |
| — Salaries, bonuses and allowances | **31,997** | 36,881 |
| — Retirement benefit scheme contributions | **3,476** | 1,347 |
| — Share-based payments | **817** | 2,304 |
| Research and development expenses | **19,594** | 21,712 |
| Auditor's remuneration | **2,458** | 2,080 |
| — Audit services | **2,080** | 2,080 |
| — Non-audit services | **378** | – |
| (Reversal)/allowance for impairment losses of financial assets, net | **(10,271)** | 27,940 |
| Write-down of inventories | **2,546** | 2,119 |
| Impairment losses of goodwill (note 21) | **–** | 23,256 |
| Impairment losses of intangible assets (note 22) | **–** | 4,708 |
| Impairment losses of investments in an associate (note 24) | **–** | 379 |

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of intangible assets and operating lease charges of approximately RMB1,639,000 (2020: RMB2,777,000) 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 RMB13,696,000 (2020: RMB17,879,000) which are included in the amounts disclosed separately.

## 14. EMPLOYEE BENEFITS EXPENSE

| | **2021** **RMB'000** | 2020 RMB'000 |
|---|---|---|
| Employee benefits expense: | | |
| Salaries, bonuses and allowances | **31,997** | 36,881 |
| Retirement benefit scheme contributions | **3,476** | 1,347 |
| Share-based payments (note 41) | **817** | 2,304 |
| | **36,290** | 40,532 |

### (a) Five highest paid individuals

The five highest paid individuals in the Group during the year included one (2020: three) Director whose Director's emoluments are reflected in the analysis presented in note 15(a). The emoluments of the remaining four individual (2020: two) are set out below:

| | **2021** **RMB'000** | 2020 RMB'000 |
|---|---|---|
| Salaries and allowances | **2,412** | 1,019 |
| Discretionary bonuses | **892** | 600 |
| Retirement benefit scheme contributions | **196** | 56 |
| | **3,500** | 1,675 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2021** | 2020 |
| HK$ nil to HK$1,000,000 (equivalent to RMB nil to RMB830,000) | **1** | 2 |
| HK$1,000,001 to HK$2,000,000 (equivalent to RMB830,000 to RMB1,660,000) | **3** | – |
| | **4** | 2 |

During the years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office, whether directly or indirectly, subsisting at the end of the year or any time during the year.

## 15. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The emoluments of every Director is set out below:

| | Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiary undertaking | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries and allowances RMB'000 | Discretionary bonuses RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Equity-settled share option expenses RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | | |
| Mr. Yue Jingxing | 100 | 1,105 | 31 | – | – | 1,236 |
| Mr. Lau Wai Leung, Alfred (note(a)) | 97 | 471 | 39 | 14 | – | 621 |
| Mr. Jiang Feng (note(b)) | 69 | 257 | – | 33 | – | 359 |
| Mr. Tang Andong (note(c)) | 27 | 183 | 108 | 14 | – | 332 |
| **Non-executive Directors** | | | | | | |
| Mr. Cheung Fan | 355 | – | – | – | – | 355 |
| Mr. Yu Lu (note (d)) | 31 | – | – | – | – | 31 |
| Mr. Ding Zhigang (note (e)) | – | – | – | – | – | – |
| Mr. Zhou, Francis Bingrong (note(f)) | 5 | – | – | – | – | 5 |
| Mr. Wang Shiguang (note(g)) | 48 | 468 | – | 26 | – | 542 |
| Ms. Pan Hong (note(h)) | 48 | – | – | – | – | 48 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Ong King Keung | 199 | – | – | – | – | 199 |
| Ms. Lo Wan Man | 100 | – | – | – | – | 100 |
| Mr. Zou Heqiang | 100 | – | – | – | – | 100 |
| **Total for the year ended 31 December 2021** | 1,179 | 2,484 | 178 | 87 | – | 3,928 |

## 15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' emoluments *(Continued)*

| | Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiary undertaking | | | | | |
|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries and allowances RMB'000 | Discretionary bonuses RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Equity-settled share option expenses RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | | |
| Mr. Yue Jingxing | 104 | 1,137 | 31 | – | – | 1,272 |
| Mr. Lau Wai Leung, Alfred (note (a)) | 250 | – | – | – | – | 250 |
| Mr. Tang Andong (note (c)) | 104 | 628 | 400 | 28 | – | 1,160 |
| **Non-executive Directors** | | | | | | |
| Mr. Cheung Fan | 625 | – | – | – | – | 625 |
| Mr. Zhou, Francis Bingrong (note (f)) | 104 | – | – | – | – | 104 |
| Mr. Wang Shiguang (note (g)) | 104 | 971 | – | 4 | – | 1,079 |
| Ms. Pan Hong (note (h)) | 54 | – | – | – | – | 54 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Ong King Keung | 208 | – | – | – | – | 208 |
| Ms. Lo Wan Man | 104 | – | – | – | – | 104 |
| Mr. Zou Heqiang | 104 | – | – | – | – | 104 |
| **Total for the year ended 31 December 2020** | 1,761 | 2,736 | 431 | 32 | – | 4,960 |

Notes:

(a) Mr. Lau Wai Leung, Alfred was a Non-Executive Director during the year 2018 and the period from 1 January 2019 to 20 January 2019. On 21 January 2019, Mr. Lau Wai Leung, Alfred was re-designated as an Executive Director. The remuneration of Mr. Lau Wai Leung, Alfred represented his capacity as both Executive Director and Non-Executive Director of the Company during the year ended 31 December 2019. Mr. Lau Wai Leung, Alfred resigned as an Executive Director on 24 June 2020 and was appointed as an Executive Director on 19 January 2021.

(b) Mr. Jiang Feng was appointed as an Executive Director on 19 April 2021.

(c) Mr. Tang Andong resigned from his position as an Executive Director on 7 April 2021.

(d) Mr. Yu Lu was appointed as a Non-executive Director on 9 September 2021.

(e) Mr. Ding Zhigang was appointed as a Non-executive Director on 13 January 2022.

(f) Mr. Zhou, Francis Bingrong resigned as a Non-executive Director on 19 January 2021.

(g) Mr. Wang Shiguang retired from his position as a Non-executive Director on 25 June 2021.

(h) Ms. Pan Hong was appointed as a Non-executive Director on 24 June 2020, and retired from his position on 25 June 2021.

## 15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

### (a) Directors' emoluments *(Continued)*

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office, whether directly or indirectly, subsisting at the end of the year or any time during the year.

Neither the chief executive nor any of the Directors waived any emoluments during the year (2020: RMB nil).

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 16. RETIREMENT BENEFIT SCHEMES CONTRIBUTIONS

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC.

Pursuant to the relevant laws and regulations in the People's Republic of China, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "**PRC Retirement Schemes**"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

During the years ended 31 December 2020 and 2021, the Group had no forfeited contributions under the PRC Retirement Schemes and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2020 and 2021 under the PRC Retirement Schemes and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

## 17. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the years ended 31 December 2021 and 2020.

## 18. LOSS PER SHARE

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

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| **Loss** | | |
| Loss for the year for the purpose of calculating basic and diluted loss per share | **(55,253)** | (126,034) |

| | **2021**<br>**'000** | 2020<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share | **1,093,887** | 986,619 |

## 18. LOSS PER SHARE *(Continued)*

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2021 and 2020 due to loss making for the years ended 31 December 2021 and 2020.

The computation of diluted loss per share for the year ended 31 December 2021 and 2020 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 and 2020.

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 2021 and 2020.

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 and 2020.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Plant and buildings RMB'000 | Machinery and equipment RMB'000 | Office and other equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2020 | 20,755 | 21,457 | 6,362 | 2,342 | 6,257 | 57,173 |
| Additions | – | 401 | 220 | 174 | 186 | 981 |
| Disposals | – | (8,133) | (418) | (265) | (2,207) | (11,023) |
| **At 31 December 2020 and 1 January 2021** | **20,755** | **13,725** | **6,164** | **2,251** | **4,236** | **47,131** |
| **Additions** | **–** | **333** | **196** | **–** | **877** | **1,406** |
| **Disposals** | **–** | **(687)** | **(332)** | **(481)** | **(1,192)** | **(2,692)** |
| **At 31 December 2021** | **20,755** | **13,371** | **6,028** | **1,770** | **3,921** | **45,845** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2020 | 3,090 | 16,773 | 3,963 | 891 | 3,917 | 28,634 |
| Charge for the year | 986 | 2,047 | 981 | 406 | 614 | 5,034 |
| Disposals | – | (8,132) | (386) | (214) | (2,135) | (10,867) |
| **At 31 December 2020 and 1 January 2021** | **4,076** | **10,688** | **4,558** | **1,083** | **2,396** | **22,801** |
| **Charge for the year** | **986** | **1,686** | **795** | **347** | **685** | **4,499** |
| **Disposals** | **–** | **(450)** | **(281)** | **(327)** | **(648)** | **(1,706)** |
| **At 31 December 2021** | **5,062** | **11,924** | **5,072** | **1,103** | **2,433** | **25,594** |
| **Carrying amount** | | | | | | |
| **At 31 December 2021** | **15,693** | **1,447** | **956** | **667** | **1,488** | **20,251** |
| At 31 December 2020 | 16,679 | 3,037 | 1,606 | 1,168 | 1,840 | 24,330 |

## 20. RIGHT-OF-USE ASSETS

| | Leased properties 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| At 1 January | **14,218** | 18,003 |
| Addition for the year | **893** | 6,456 |
| Depreciation for the year | **(4,782)** | (7,414) |
| Exchange differences | **3** | (164) |
| Disposal for the year | **(22)** | (2,663) |
| At 31 December | **10,310** | 14,218 |

During the year ended 31 December 2021, the Group disposed of a right-of-use asset under an early termination of a lease for an office premise in the PRC, with a net carrying value of RMB22,000 (2020: RMB 2,663,000).

Lease liabilities of RMB11,022,000 (2020: RMB14,726,000) are recognised with related right-of-use assets of RMB10,310,000 as at 31 December 2021 (2020: RMB14,218,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Depreciation expenses on right-of-use assets | **4,782** | 7,414 |
| Interest expense on lease liabilities (included in finance cost) | **616** | 747 |
| Expenses relating to short-term lease (included in selling and marketing expenses, general and administrative expenses, research and development expenses and cost of sales) | **3,916** | 1,984 |
| COVID-19 Related rent concessions received | **–** | (248) |
| Gain on lease modification | **–** | (134) |

Details of total cash outflow for leases is set out in note 42(b).

As disclosed in note 3(a), the Group has early adopted the Amendments to HKFRS 16: COVID-19 Related Rent Concessions, and applied the practical expedient introduced by the Amendments to all eligible rent concessions received by the Group during the period.

Lease arrangements of office premises were negotiated on an individual basis and contain a wide range of different terms and conditions including lease terms ranging from 1 to 5 years. In determining the lease terms and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests.

## 21. GOODWILL

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Cost** | | |
| At 1 January and 31 December | **215,147** | 215,147 |
| **Accumulated impairment losses** | | |
| At 1 January | **(194,429)** | (171,173) |
| Impairment losses recognised for the year | **–** | (23,256) |
| At 31 December | **(194,429)** | (194,429) |
| **Carrying amount** | | |
| At 31 December | **20,718** | 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:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| AMR and other business (note (a)) | **–** | – |
| SMIA business (note (b)) | **20,718** | 20,718 |
| | **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

As at 31 December 2021, 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% (2020: 2.6%) 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 17.25% (2020: 20.44%), 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.

As a result, no impairment losses for goodwill has been recorded during the year (2020: RMB23,256,000), goodwill has been fully impaired for the year ended 31 December 2020. The carrying amount of the CGU for 2021 in relation to AMR and other business amounted of approximately RMB160,687,000 (2020: RMB161,883,000). Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

## 21. GOODWILL *(Continued)*

### (b) SMIA business

As at 31 December 2021, 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% (2020: 2.6%) 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 21.29% (2020: 23.04%), 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.

As a result, no impairment losses for goodwill has been recorded during the year (2020: Nil) and the carrying amount of the CGU for 2021 in relation to SMIA business is approximately RMB185,016,000 (2020: RMB232,338,000).

In SMIA business segment, the recoverable amount calculated based on value in use exceeded carrying value by approximately RMB28,747,000. The pre-tax rates used to discount the forecast cash flows of SMIA CGU change from 21.29% to 24.26%, would remove the remaining headroom.

## 22. INTANGIBLE ASSETS

| | Software and others<br>RMB'000 | Capitalised development costs<br>RMB'000 | Customer relationships<br>RMB'000 | Non-compete undertakings<br>RMB'000 | Unfulfilled contracts<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2020 | 11,860 | 11,029 | 99,380 | 100,147 | 22,264 | 244,680 |
| Additions | 168 | – | – | – | – | 168 |
| Transfer | 10,464 | (10,464) | – | – | – | – |
| **At 31 December 2020 and 1 January 2021 and 31 December 2021** | **22,492** | **565** | **99,380** | **100,147** | **22,264** | **244,848** |
| **Accumulated amortisation and impairment losses** | | | | | | |
| At 1 January 2020 | 7,902 | – | 18,527 | 20,675 | 17,124 | 64,228 |
| Amortisation for the year | 1,688 | – | 12,651 | 14,725 | 5,140 | 34,204 |
| Impairment losses for the year | – | – | 1,292 | 3,416 | – | 4,708 |
| **At 31 December 2020 and 1 January 2021** | **9,590** | **–** | **32,470** | **38,816** | **22,264** | **103,140** |
| Amortisation for the year | **622** | **–** | **8,775** | **13,261** | **–** | **22,658** |
| **At 31 December 2021** | **10,212** | **–** | **41,245** | **52,077** | **22,264** | **125,798** |
| **Carrying amount** | | | | | | |
| **At 31 December 2021** | **12,280** | **565** | **58,135** | **48,070** | **–** | **119,050** |
| At 31 December 2020 | 2,270 | 11,029 | 66,910 | 61,331 | – | 141,540 |

## 22. INTANGIBLE ASSETS (Continued)

The average remaining amortisation periods of the software and others, customer relationships,non-compete undertakings and unfulfilled contracts are nil to 8 years (2020: nil to 9 years), nil to 7 years (2020: nil to 8 years), 1 to 4 years (2020: 2 to 5 years) and nil year (2020: nil year) respectively.

The Group carried out reviews of the recoverable amount of its customer relationships and non-compete undertakings in 2021, having regard to the market conditions of the Group's products. These assets are used in the Group's AMR and other business segment. No recognition of an impairment losses for customer relationships (2020: RMB1,292,000) and non-compete undertakings (2020: RMB3,416,000) respectively, and have been recognised in profit or loss. The recoverable amount of AMR and other business is disclosed in note 21 to the consolidated financial statement.

## 23. INVESTMENTS IN SUBSIDIARIES

Particulars of the Group's major subsidiaries at 31 December 2021 and 2020 are set out as follows:

| Name | Place of incorporation or registration/Type of legal entity | Particular of issued share capital | Percentage of ownership interest/ voting power/profit sharing 2021 | 2020 | Principal activities/ Place of operation |
|---|---|---|---|---|---|
| **Directly held by the Company** | | | | | |
| Risecomm Co. Ltd. | Cayman Islands/ Limited liability company | Ordinary shares US$18,128.22 | **100%** | 100% | Dormant |
| Harvest Year Global Limited | Seychelles/Limited liability company | Ordinary shares US$1 | **100%** | 100% | Investment holding/ Hong Kong |
| Prime Key Holdings Limited | Seychelles/Limited liability company | Ordinary shares US$1 | **100%** | 100% | Investment holding/ Hong Kong |
| Green Harmony Limited | Seychelles/Limited liability company | Ordinary shares US$1 | **100%** | 100% | Investment holding/ Seychelles |
| **Indirectly held by the Company** | | | | | |
| Risecomm (HK) Technology Co. Limited | Hong Kong/Limited liability company | Ordinary shares HK$1 | **100%** | 100% | Trading and research and development/ Hong Kong |
| Risecomm (HK) Holding Co. Limited | Hong Kong/Limited liability company | Ordinary shares HK$1 | **100%** | 100% | Investment holding/ Hong Kong |
| Risecomm Microelectronics (Shenzhen) Co., Ltd.* | the PRC/wholly foreign owned enterprise | Ordinary shares US$17,500,000 | **100%** | 100% | Manufacturing and sales of AMR products/the PRC |

## 23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation or registration/Type of legal entity | Particular of issued share capital | Percentage of ownership interest/voting power/profit sharing 2021 | 2020 | Principal activities/ Place of operation |
|---|---|---|---|---|---|
| **Indirectly held by the Company** *(Continued)* | | | | | |
| Beijing Risecomm Communication Technology Company Limited* | the PRC/Limited liability company | Ordinary shares RMB3,000,000 | **100%** | 100% | Sales and marketing/ the PRC |
| Wuxi Risecomm Communication Technology Company Limited* | the PRC/Limited liability company | Ordinary shares RMB3,100,000 | **100%** | 100% | Research and development/ the PRC |
| North Mountain Information Technology Company Limited | Hong Kong/Limited liability company | Ordinary shares HK$10,000 | **100%** | 100% | Investment holding/ Hong Kong |
| North Mountain Power Technology (Beijing) Co., Ltd* | the PRC/wholly foreign owned enterprise | Ordinary shares RMB50,000,000 | **100%** | 100% | Sales and marketing/ the PRC |
| Hongten Technology Limited | Hong Kong/Limited liability company | Ordinary shares HK$10,000 | **100%** | 100% | Investment holding/ Hong Kong |
| Beijing Hongteng Weitong Technology Co.,Ltd* | the PRC/wholly foreign owned enterprise | Ordinary shares RMB32,244,307.16 | **100%** | 100% | SMIA business and construction/ the PRC |
| Beijing Jiangxinchuangda Technology Co.,Ltd* | the PRC/Limited liability company | Ordinary shares RMB2,000,000 | **100%** | 100% | SMIA business/ the PRC |
| Beijing Tongyong Chuangweishi Technology Development Co.,Ltd* | the PRC/Limited liability company | Ordinary shares RMB10,010,000 | **100%** | 100% | Dormant |

Notes:

* The official name of the company is in Chinese. The English translation of the company name is for reference only.

## 24. INVESTMENTS IN AN ASSOCIATE

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Unlisted investments:** | | |
| Share of net assets | **379** | 421 |
| Accumulated impairment losses | **(379)** | (379) |
| | **–** | 42 |

Details of the Group's associate at 31 December 2021 and 2020 are as follows:

| Name | Place of incorporation/ registration | Particular of issued share capital | Percentage of ownership interest/ voting power/ profit sharing 2021 | 2020 | Principal activities |
|---|---|---|---|---|---|
| Risecomm (Beijing) Technology Company Limited.* ("**Risecomm BTCL**") | The PRC | RMB2,000,000 | **50%** | 50% | Research and development |

Notes:

* The official name of the company is in Chinese. The English translation of the company name is for reference only.

The Group holds 50% of the voting power of Risecomm BTCL. However, under a shareholders' agreement, the other shareholder controls the composition of the board of Directors of Risecomm BTCL and has control over Risecomm BTCL. The Directors of the Company consider that the Group does have significant influence over Risecomm BTCL and it is therefore classified as an associate of the Group.

The following table shows information on the associate that is immaterial to the Group and accounted for using the equity method in the consolidated financial statements.

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **At 31 December:** | | |
| Carrying amounts of interests | **–** | 42 |
| **Year ended 31 December:** | | |
| Total comprehensive (loss)/income | **(42)** | 25 |
| Impairment losses of investment in an associate | **(379)** | (379) |

As at 31 December 2021, the cash and cash equivalents of the Group's associate in the PRC denominated in RMB amounted to RMB30,000 (2020: RMB37,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

No impairment loss was recognised by the Group for the year ended 31 December 2021 (2020: approximately RMB379,000) on its interests in an associate.

## 25. INVENTORIES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Raw materials | **25,073** | 22,429 |
| Work in progress | **2,420** | 1,530 |
| Finished goods | **13,735** | 21,334 |
| | **41,228** | 45,293 |
| Allowance for impairment of inventories | **(25,338)** | (22,792) |
| | **15,890** | 22,501 |

## 26. CONTRACT COSTS

Contract costs capitalised as at 31 December 2021 and 2020 relate to the costs to fulfil a contract with a customer. Contract costs are recognised as part of "cost of sales" in the statement of profit or loss in the period in which revenue is recognised.

The amount of capitalised contract costs recognised as at 31 December 2021 was RMB786,000 (2020: RMB5,831,000). The amount of capitalised contract costs is expected to be recovered within one year.

## 27. CONTRACT ASSETS

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Contract assets arising from: | | |
| Performance under construction contracts | **33,987** | – |
| Less: Allowance for impairment loss | **–** | – |
| | **33,987** | – |

As at 31 December 2021, all contract assets were expected to be billed within one year.

No allowance for impairment loss of contracts assets recognised for the year ended 31 December 2021.

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. Additionally, the Group typically agrees 6 months to 1 year retention period for 10% of the contract sum, which is kept in contract assets until the end of the retention period as the Group's entitlement to it is conditional on the Group's work satisfactorily passing inspection.

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the year end date.

## 28. TRADE AND OTHER RECEIVABLES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Trade receivables | **141,883** | 163,125 |
| Bills receivable | **4,351** | 9,211 |
| Allowance for impairment losses of trade receivables | **(56,977)** | (83,398) |
| | **89,257** | 88,938 |
| Prepayments | **25,609** | 36,055 |
| Income tax recoverable | **243** | 243 |
| Other receivables | **8,586** | 8,749 |
| Allowance for impairment losses of other receivables | **(2,918)** | (2,400) |
| | **31,520** | 42,647 |
| Total trade and other receivables | **120,777** | 131,585 |

The Group generally allows an average credit period of 180 days (2020: 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:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within 6 months | **69,140** | 74,610 |
| After 6 months but within 1 year | **5,461** | 7,094 |
| Over 1 year | **14,656** | 7,234 |
| | **89,257** | 88,938 |

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

## 29. BANK AND CASH BALANCES

Bank and cash balances comprise cash held by the Group and short-term deposits with an original maturity of three months or less. The balances are mainly denominated in RMB.

The Group's restricted cash represented guarantee deposit pledged to tenderer to secure the submission of tender. The pledged as at 31 December 2021 amounted to RMB104,000 (2020: RMB Nil).

As at 31 December 2021, the bank and cash balances of the Group denominated in RMB amounted to RMB89,293,000 (2020: RMB117,268,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 30. SHARE CAPITAL

| | 2021 Number of shares '000 | 2021 HK$'000 | 2020 Number of shares '000 | 2020 HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.0001 each | **10,000,000** | **1,000** | 10,000,000 | 1,000 |
| At 31 December | | | | |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | **986,619** | **99** | 986,619 | 99 |
| Share subscription (note (a)) | **197,320** | **20** | – | – |
| Rights issue (note (b)) | **591,970** | **59** | – | – |
| At 31 December | **1,775,909** | **178** | 986,619 | 99 |
| RMB equivalent (RMB'000) | | **151** | | 86 |

Notes:

(a) On 12 July 2021, 88,660,000 and 108,660,000 ordinary shares at a price of HK$0.170 were issued to 2 subscribers respectively according to the subscription agreements. The Company had raised an approximately HK$33,544,000 (equivalent to RMB27,736,000), before net of expenses.

(b) On 17 December 2021, the Company had raised an approximately HK$123,100,000 (equivalent to RMB100,389,000), before net of expenses by way of the right issue of 591,969,535 rights shares on the basis of one rights share for every two share at the subscription price of HK$0.208 per share.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by total equity. Net debt comprises the acquisition consideration payables, convertible bonds, lease liabilities and other borrowing. Total equity comprises all components of equity (i.e. share capital, retained profits and other reserves).

## 30. SHARE CAPITAL *(Continued)*

The debt-to-equity ratios at 31 December 2021 and at 31 December 2020 were as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Total debt | **133,516** | 254,322 |
| Less: cash and cash equivalents | **(91,705)** | (121,669) |
| Net debt | **41,811** | 132,653 |
| Total equity | **193,799** | 114,341 |
| Debt-to-equity ratio | **21.6%** | 116% |

The decrease in the debt-to-equity ratio during 2021 resulted primarily from decrease of total debt due to the settlement of the acquisition consideration payables and increase of total equity arising from fund raising activities during the year.

The externally imposed capital requirement for the Group is to have a public float of at least 25% of the shares in order to maintain its listing on the Stock Exchange.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2021, 42.26% (2020: 48.00%) of the shares were in public hands.

## 31. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | **205,419** | 205,419 |
| **Current assets** | | |
| Deposits and prepayments | **213** | 79 |
| Amounts due from subsidiaries | **59,477** | 65,323 |
| Cash and cash equivalents | **701** | 165 |
| | **60,391** | 65,567 |
| **TOTAL ASSETS** | **265,810** | 270,986 |
| **Capital and reserves** | | |
| Share capital | **151** | 86 |
| Reserves | **138,109** | 28,626 |
| | **138,260** | 28,712 |
| **Non-current liabilities** | | |
| Other borrowings | **4,904** | – |
| **Current liabilities** | | |
| Acquisition consideration payables | **–** | 120,520 |
| Convertible bonds | **117,590** | 119,076 |
| Other payables | **5,056** | 2,678 |
| | **122,646** | 242,274 |
| **TOTAL EQUITY AND LIABILITIES** | **265,810** | 270,986 |

Approved by the Board of Directors on 29 March 2022 and are signed on its behalf by:

**Yue Jingxing**
*Director*

**Lau Wai Leung, Alfred**
*Director*

## 31. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

### (b) Reserve movement of the Company

| | Share premium RMB'000 (note 32(b)(i)) | Capital reserve RMB'000 (note 32(b)(ii)) | Exchange reserve RMB'000 (note 32(b)(iv)) | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2020 | 231,362 | 159,964 | 9,301 | (199,245) | 201,382 |
| Total comprehensive income for the year | – | – | 10,179 | (185,239) | (175,060) |
| Equity-settled share-based payments (note 41) | – | 2,304 | – | – | 2,304 |
| Share option forfeited (note 41) | – | (1,745) | – | 1,745 | – |
| **At 31 December 2020 and 1 January 2021** | **231,362** | **160,523** | **19,480** | **(382,739)** | **28,626** |
| Total comprehensive income for the year | **–** | **–** | **5,934** | **(23,690)** | **(17,756)** |
| Equity-settled share-based payments (note 41) | **–** | **817** | **–** | **–** | **817** |
| Share option forfeited (note 41) | **–** | **(1,774)** | **–** | **1,774** | **–** |
| Share subscription (note 30(a)) | **27,736** | **–** | **–** | **–** | **27,736** |
| Less: share issue expense | **(134)** | **–** | **–** | **–** | **(134)** |
| Rights issue (note 30(b)) | **100,389** | **–** | **–** | **–** | **100,389** |
| Less: rights issue expense | **(1,569)** | **–** | **–** | **–** | **(1,569)** |
| At 31 December 2021 | **357,784** | **159,566** | **25,414** | **(404,655)** | **138,109** |

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

**(i) Share premium**

Under the Companies Law of the Cayman Islands, the share premium account is available for distribution to shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company is in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

## 32. RESERVES *(Continued)*

### (b) Nature and purpose of reserves *(Continued)*

**(ii) Capital reserve**

Capital reserve comprised the followings:

— the fair value of unexercised share options (see note 41);

— the difference between fair value of the preference shares and the warrant and the issued amount, upon the waiver of the terms of convertible redeemable preference shares and the warrant in March 2014, and capitalization of the outstanding cumulative dividends payable due to preference shareholders upon waiver in March 2014;

— upon completion of a group reorganization in February 2016, the share premium of Risecomm Co. Ltd., which was the then holding company of the Group, was deducted from the share premium presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve and retained earnings;

— the difference between the cost of the additional investment and the carrying amount of the net assets acquired at 10 August 2018 (the date of exchange) when acquiring the non-controlling interest in a subsidiary, Changsha Risecomm Communication Technology Company Limited.

**(iii) PRC statutory reserve**

Pursuant to the relevant laws and regulations for business enterprises in the PRC, a portion of the profits of the entities which are registered in the PRC has been transferred to the statutory reserve which is restricted as to use. When the balance of such reserve reaches 50% of the capital of that entity, any further appropriation is optional. The statutory surplus reserve can be used to make up for prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

**(iv) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d) to the consolidated financial statements.

## 33. DEFERRED INCOME

Deferred income represents conditional government subsidies for encouragement of research and development projects, which is recognised in profit or loss in accordance with the accounting policy adopted for government grants set out in note 4(x).

## 34. LEASE LIABILITIES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year | **4,225** | 5,090 | **3,774** | 4,488 |
| Between 1 and 2 years | **4,158** | 3,735 | **3,891** | 3,311 |
| Between 2 and 5 years | **3,472** | 7,304 | **3,357** | 6,927 |
| | **11,855** | 16,129 | **11,022** | 14,726 |
| Less: total future interest expenses | **(833)** | (1,403) | **N/A** | N/A |
| Present value of lease liabilities | **11,022** | 14,726 | **11,022** | 14,726 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(3,774)** | (4,488) |
| Amount due for settlement after 12 months | | | **7,248** | 10,238 |

The weighted average incremental borrowing rate applied was 4.75% (2020: 4.75%).

The commencement date of the respective lease liabilities are 1 September 2019, 16 August 2020 and 1 September 2021 respectively. The maturity date of the respective lease liabilities are 31 August 2024, 15 August 2025 and 31 August 2023 respectively.

The carrying amounts of lease liabilities are mainly denominated in RMB.

## 35. DEFERRED TAX

Movement of each component of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

| Deferred tax arising from: | Tax losses | Impairment losses on receivables and inventories | Unrealised profit due to Intra-group transactions | Accrued expense and other payables | Deferred income | Intangible assets | Intangible assets identified in business combination | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2020 | 6,226 | 13,435 | 226 | 316 | 725 | (236) | (41,369) | (20,677) |
| Credited/(charged) to profit or loss | 8,927 | 4,838 | 78 | 1,421 | (277) | (1,365) | 9,308 | 22,930 |
| **At 31 December 2020 and 1 January 2021** | **15,153** | **18,273** | **304** | **1,737** | **448** | **(1,601)** | **(32,061)** | **2,253** |
| **Credited/(charged) to profit or loss** | **8,024** | **(4,507)** | **76** | **(1,336)** | **(204)** | **44** | **5,509** | **7,606** |
| **At 31 December 2021** | **23,177** | **13,766** | **380** | **401** | **244** | **(1,557)** | **(26,552)** | **9,859** |

## 35. DEFERRED TAX *(Continued)*

The following is the analysis of the deferred tax balances (after offset) for the consolidated statement of financial position purposes:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Deferred tax assets | **37,967** | 35,915 |
| Deferred tax liabilities | **(28,108)** | (33,662) |
| | **9,859** | 2,253 |

At the end of the reporting period, the Group has estimated unused tax losses of approximately RMB244,181,000 (2020: RMB133,450,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB23,177,000 (2020: RMB15,153,000) of such losses. It is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction before they expire, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB131,144,000 (2020: RMB54,303,000) of certain subsidiaries. For the year ended 31 December 2021, included in unrecognised tax losses are losses of approximately RMB24,345,000, RMB504,000, RMB4,029,000, RMB1,000, RMB6,463,000 and RMB33,042,000 that will expire in 2031, 2030, 2026, 2025, 2024 and 2023 respectively. Other tax losses may be carried forward indefinitely.

Under the Corporate Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries of RMB2,113,000 as at 31 December 2021 (2020: RMB10,622,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 36. OTHER BORROWING

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Other borrowing | **4,904** | – |

The other borrowing is repayable as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within one year | **–** | – |
| More than one year, but not exceeding two years | **4,904** | – |
| | **4,904** | – |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **–** | – |
| Amount due for settlement after 12 months | **4,904** | – |

## 36. OTHER BORROWING *(Continued)*

The carrying amount of the Group's borrowing is denominated at HK$.

The other borrowing is carrying fixed interest rates at 4% per annum and expose the Group to fair value interest rate risk.

At 31 December 2021, the Group had Nil (2020: Nil) of available undrawn borrowing facilities.

## 37. TRADE AND OTHER PAYABLES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Trade payables (note (a)) | **85,447** | 66,624 |
| Product warranty provision (note (b)) | **557** | 684 |
| Other payables and accruals | **14,947** | 12,137 |
| | **100,951** | 79,445 |

### (a) Trade payables

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:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within 3 months | **59,348** | 38,040 |
| After 3 months but within 6 months | **2,067** | 12,331 |
| After 6 months but within 1 year | **1,706** | 3,361 |
| Over 1 year but within 2 years | **19,051** | 9,553 |
| Over 2 years | **3,275** | 3,339 |
| | **85,447** | 66,624 |

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

### (b) Product warranty provision

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Balance at 1 January | **684** | 1,701 |
| Additional provisions made | **382** | 349 |
| Provision utilised | **(377)** | – |
| Provision reversed | **(132)** | (1,366) |
| Balance at 31 December | **557** | 684 |

## 38. CONTRACT LIABILITIES

### Contract liabilities

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Billings in advance of performance obligation | | |
| — Billings in advance of performance (note (a)) | **8,856** | 7,240 |
| — Deferred post-contact customer support income (note (b)) | **1,730** | 2,322 |
| — Construction contracts (note (c)) | **–** | 21,571 |
| | **10,586** | 31,133 |

Movements in contract liabilities:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Balance at 1 January | **31,133** | 9,656 |
| Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period | **(31,133)** | (9,656) |
| Increase in contract liabilities as a result of billing in advance of manufacturing activities | **8,856** | 7,240 |
| Increase in contract liabilities as a result of billing in advance of post-contract support activities | **1,730** | 2,322 |
| Increase in contract liabilities as a result of billing in advance of construction contracts | **–** | 21,571 |
| Balance at 31 December | **10,586** | 31,133 |

No billings in advance of performance received that is expected to be recognised as income after more than one year (2020: RMB nil).

Notes:

(a) When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised when control over a product transferred to the customers. The Group typically receives a deposit on acceptance of orders from customers, the amount of the deposit, if any, is negotiated on a case by case basis with customers.

(b) Deferred post-contract customer support income primarily consists of unamortised revenue from sales of software license, where there is still an implied service performance obligation to be provided by the Group over time.

(c) When the Group receives a deposit before the construction activity commences this will give rise to contract liabilities, until the revenue recognised when the outcome of a construction contract can be reasonably measured. The Group typically receives a deposit on acceptance of orders from customers, the amount of the deposit, if any, is negotiated on a case by case basis with customers.

## 39. ACQUISITION CONSIDERATION PAYABLES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Acquisition of Green Harmony (note (a)) | | |
| — Promissory note payable | – | 120,520 |
| | – | 120,520 |

### (a) Acquisition of Green Harmony

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Balance at 1 January | **120,520** | 118,814 |
| Principal redemption of the "First Promissory note" (Note (a)) | **(16,352)** | – |
| Principal redemption of the "Second Promissory note" (Note (b)) | **(100,448)** | – |
| Payment for interest on promissory notes | **(8,998)** | – |
| Finance cost recognised in the profit or loss | **8,793** | 9,181 |
| Foreign currency exchange adjustment | **(3,515)** | (7,475) |
| Balance at 31 December | – | 120,520 |

Notes:

(a) According to the sales and purchase agreement (the "**SPA**"), the Group issued 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 issuance date of 15 August 2018 (the "**GH Acquisition Date**") (i.e. 14 August 2020) to Sailen IOT (formerly known as Tiger Resort, Leisure and Entertainment, Inc.). The face value of the "First Promissory Note" on the GH Acquisition Date is HK$200,000,000. During the year ended 31 December 2019, the Group partially redeemed HK$180,000,000 principal (equivalent to RMB157,776,000) of the First Promissory Note by cash. Interest paid for the redeemed principal was calculated for the period from 15 August 2018 to actual payment date in 2019.

On 25 November 2019, the Group has entered into a supplemental agreement to the SPA with Sailen IOT, the vendor of Green Harmony, based on which, the payment due date of the remaining HK$20,000,000 principal of the First Promissory Note was extended to 14 August 2021. Coupon interest rate on the remaining principal balance was revised to 4% per annum. As at 31 December 2020, the outstanding principal amount of the First Promissory Note was HK$20,000,000.

On 26 July 2021, the Group fully redeemed HK$20,000,000 principal (equivalent to RMB16,352,000) of the First Promissory Note by cash together with interest paid by amounting HK$1,346,000 (equivalent to RMB1,116,000).

(b) According to the SPA, the Group was required to issue another unsecured promissory note (the "**Second Promissory Note**") on or before 31 December 2018 to Sailen IOT, with a coupon interest rate of 8% per annum payable on an annual basis with a term of 2 years. The maximum face value of the "Second Promissory Note" from the issuance date was HK$200,000,000. The Second Promissory note was issued on 31 December 2018 and with an original payment due date on 30 December 2020.

On 29 August 2019, the face value of the Second Promissory Note has been agreed by the Company and the vendor of Green Harmony as HK$123,000,000 based on actual financial performance of Green Harmony for the year ended 31 December 2018. As at 31 December 2020, the outstanding principal amount of the Second Promissory Note was HK$122,857,000.

According to the supplemental agreement signed on 25 November 2019, the payment due date of the Second Promissory Note was extended to 30 December 2021 and was therefore reclassified to non-current liabilities. Coupon interest rate on the principal amount was revised to 4% per annum.

On 26 July 2021, the Group partially redeemed HK$11,999,000 principal (equivalent to RMB9,810,000) of the Second Promissory Note by cash.

On 20 December 2021, the Group early settled the remaining principal amount of Second Promissory Note by HK$110,859,000 (equivalent to approximately RMB90,638,000) and settled the interest payable on 20 December 2021 in an aggregate amount of approximately HK$9,501,000 (equivalent to RMB7,882,000).

## 40. CONVERTIBLE BONDS

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Balance at 1 January | **119,076** | 116,196 |
| Payment for interest on convertible bonds | **(4,954)** | (5,185) |
| Re-measurement on convertible bonds | **6,916** | 15,442 |
| Foreign currency exchange adjustment | **(3,448)** | (7,377) |
| Balance at 31 December | **117,590** | 119,076 |

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.

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** | 31 December 2020 | Date of issue |
|---|---|---|---|
| Risk free rates | **0.19%** | 0.08% | 1.87% |
| Discount rate | **14.34%** | 17.47% | 18.40% |
| Dividend yield | **0%** | 0.79% | 0.95% |
| Expected volatility | **56.98%** | 44.40% | 57.28% |

## 41. SHARE-BASED PAYMENTS

### Equity-settled share option scheme

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 25 August 2016 and 3 September 2018 and, unless otherwise cancelled or amended, will remain in force for 10 and 8 years from that date respectively.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer, when applicable.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

## 41. SHARE-BASED PAYMENTS

### Equity-settled share option scheme *(Continued)*

**(a)** The terms and conditions of the grants are as follows:

| | Number of instrument | Vesting conditions | Contractual life of options |
|---|---|---|---|
| **Options granted to employees** | | | |
| — On 1 February 2007 | 731,334 | 25% of total shares vested on year anniversary of the grant date, the rest vested in 36 substantially equal monthly instalments from year anniversary of the grant date | 10 years |
| — On 21 April 2011 | 200,000 | | 10 years |
| — On 26 March 2014 | 503,858 | | 10 years |
| — On 3 September 2018 | 1,500,000 | 75% of total shares vested immediately on grant date, the rest vested in 3 equal yearly instalments from the second year anniversary of the grant date | 8 years |
| — On 3 September 2018 | 14,000,000 | Vested in 3 equal yearly instalments from the second year anniversary of the grant date | 8 years |
| **Options granted to non-executive directors** | | | |
| — On 1 February 2007 | 200,000 | Vested immediately on grant date | 10 years |
| — On 26 March 2014 | 26,799 | | 10 years |
| Options granted to SAIF | | | |
| — On 21 April 2011 | 168,666 | Vested immediately on grant date | 10 years |
| — On 26 March 2014 | 136,000 | | 10 years |
| Total share options granted | 17,466,657 | | |

## 41. SHARE-BASED PAYMENTS *(Continued)*

### Equity-settled share option scheme *(Continued)*

**(b)** The number and weighted average exercise prices of share options are as follows:

| | **At 31 December 2021** | | At 31 December 2020 | |
|---|---|---|---|---|
| | **Weighted Average exercise price** | **Number of options** | Weighted Average exercise price | Number of options |
| Outstanding at the beginning of the year | **USD0.0003** | **863,587** | USD0.0003 | 863,587 |
| Adjustments due to Rights Issue | **USD0.0003** | **(7,032)** | – | – |
| Outstanding at the beginning of the year | **HK$1.71** | **9,830,000** | HK$1.71 | 13,730,000 |
| Forfeited during the year | **HK$1.71** | **(2,930,000)** | HK$1.71 | (3,900,000) |
| Adjustments due to Rights Issue | **HK$1.71** | **(56,189)** | – | – |
| Outstanding at the end of the year | **USD0.000302** | **856,555** | USD0.0003 | 863,587 |
| Outstanding at the end of the year | **HK$1.724** | **6,843,811** | HK$1.71 | 9,830,000 |
| Exercisable at the end of the year | **USD0.000302** | **856,555** | USD0.0003 | 863,587 |
| Exercisable at the end of the year | **HK$1.724** | **4,562,540** | HK$1.71 | 3,276,667 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK$ nil (2020: HK$Nil).

The options outstanding at 31 December 2021 had an exercise price of USD0.000302 or HK$1.724 (2020: USD0.0003 or HK$1.71) and a weighted average remaining contractual life of 4.27 years (2020: 5.15 years).

2,930,000 (2020: 3,900,000) share options have been forfeited during the year ended 31 December 2021. 63,221 (2020: Nil) share options were subject to adjustments as a result of Rights Issue during the year ended 31 December 2021.

## 41. SHARE-BASED PAYMENTS *(Continued)*

### Equity-settled share option scheme *(Continued)*

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

| | Share options issued in | | | |
|---|---|---|---|---|
| | February 2007 | April 2011 | March 2014 | September 2018 |
| **Fair value of share options and assumptions** | | | | |
| Fair value at measurement date | USD746,428 | USD420,228 | USD809,779 | HK$13,574,844 |
| Share price | USD0.80 | USD1.14 | USD1.23 | HK$1.71 |
| Exercise price (note) | USD0.01 | USD0.01 | HK$0.01 | HK$1.71 |
| Expected volatility | 51.90% | 50.15% | 46.15% | 58.25% |
| Option life | 10 years | 10 years | 10 years | 8 years |
| Suboptimal exercise factor | 2.86 to 3.3422 | 2.86 to 3.3422 | 2.86 to 3.3422 | 2.86 |
| Expected dividend yield | 0% | 0% | 0% | 0.95% |
| Risk-free interest rate | 4.14% | 2.72% | 2.29% | 2.15% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Note:

The exercise price of the tranches of share options granted in February 2007, April 2011 and March 2014 was changed to USD0.0003 per share upon a capitalisation issue prior to the Company's Initial Public Offering in June 2017, and was further changed to USD0.000302 per share upon the adjustments as a result of Rights Issue during the year ended 31 December 2021.

The exercise price of the tranches of share options granted in September 2018 was changed to HK$1.724 per share upon the adjustments as a result of Rights Issue during the year ended 31 December 2021..

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Other borrowing (note 36) RMB'000 | Lease liabilities (note 34) RMB'000 | Acquisition consideration payable (note 39) RMB'000 | Convertible bonds (note 40) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2021 | – | 14,726 | 120,520 | 119,076 | 254,322 |
| **Changes from cash flows:** | | | | | |
| Payment for interest | – | – | (8,998) | (4,954) | (13,952) |
| Payment for principal on acquisition consideration payable | – | – | (116,800) | – | (116,800) |
| Borrowing raised | 4,741 | – | – | – | 4,741 |
| Capital element of lease rentals paid | – | (4,552) | – | – | (4,552) |
| Interest element of lease rentals paid | – | (616) | – | – | (616) |
| Total changes from cash flows | 4,741 | (5,168) | (125,798) | (4,954) | (131,179) |
| **Other changes:** | | | | | |
| Finance cost of acquisition consideration payable recognised in the profit or loss | – | – | 8,793 | – | 8,793 |
| Increase in lease liabilities from entering into new leases during the year | – | 893 | – | – | 893 |
| Interest expense | 78 | 616 | – | – | 694 |
| Changes in fair value of convertible bonds | – | – | – | 6,916 | 6,916 |
| Foreign currency exchange adjustments | 85 | (45) | (3,515) | (3,448) | (6,923) |
| Total other changes | 163 | 1,464 | 5,278 | 3,468 | 10,373 |
| At 31 December 2021 | 4,904 | 11,022 | – | 117,590 | 133,516 |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (a) Reconciliation of liabilities arising from financing activities *(Continued)*

| | Lease liabilities (note 34) RMB'000 | Acquisition consideration payable (note 39) RMB'000 | Convertible bonds (note 40) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2020 | 18,157 | 118,814 | 116,196 | 253,167 |
| **Changes from cash flows:** | | | | |
| Payment for interest on convertible bonds | – | – | (5,185) | (5,185) |
| Capital element of lease rentals paid | (7,066) | – | – | (7,066) |
| Interest element of lease rentals paid | (747) | – | – | (747) |
| Total changes from cash flows | (7,813) | – | (5,185) | (12,998) |
| **Other changes:** | | | | |
| Finance cost of acquisition consideration payable recognised in the profit or loss | – | 9,181 | – | 9,181 |
| Increase in lease liabilities from entering into new leases during the year | 6,456 | – | – | 6,456 |
| Disposal of lease liabilities during the year | (2,797) | – | – | (2,797) |
| Interest expense | 747 | – | – | 747 |
| Changes in fair value of convertible bonds | – | – | 15,442 | 15,442 |
| Foreign currency exchange adjustments | (24) | (7,475) | (7,377) | (14,876) |
| Total other changes | 4,382 | 1,706 | 8,065 | 14,153 |
| At 31 December 2020 | 14,726 | 120,520 | 119,076 | 254,322 |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (b) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within operating cash flows | **3,812** | 2,731 |
| Within financing cash flows | **4,552** | 7,066 |
| | **8,364** | 9,797 |

These amounts relate to the lease rental paid.

## 43. CONTINGENT LIABILITY

As at 31 December 2021, the Group did not have any significant contingent liabilities (2020: RMB nil).

## 44. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Capital contribution to: | | |
| Company in Guangdong Province, PRC | **2,800** | 2,800 |
| | **2,800** | 2,800 |

A subsidiary of the Company entered into an agreement, pursuant to which all parties have agreed to establish a company in Guangdong Province, the PRC, which principally engages in the AMR and other business. The registered capital of the company is RMB20,000,000, as at 31 December 2021, the Group did not make any share capital injection, the unpaid capital commitment is RMB2,800,000 remained outstanding.

## 45. 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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Office premises rental expenses paid to Wang Shiguang ("**Mr. Wang**") (note) | **362** | 724 |
| Goods sold to a related company | **–** | 13 |
| | **362** | 737 |

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

As at 31 December 2021, the Group had Nil balance with related parties (2020: Nil.).

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

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | **7,853** | 9,011 |
| Post-employee benefits | **313** | 63 |
| | **8,166** | 9,074 |

## 46. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2021 and up to the date of this report.

## 47. COMPARATIVE FIGURES

The presentation in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position have been changed from the classification by nature to classification by function as the directors consider that the new presentation is more appropriate to the consolidated financial statements.

# Five-Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements.

## FINANCIAL HIGHLIGHTS

| | 2017<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | **2021**<br>**RMB'000** |
|---|---|---|---|---|---|
| Revenue | 317,333 | 475,793 | 218,575 | 212,734 | **248,154** |
| Gross profit | 145,727 | 159,534 | 64,775 | 33,534 | **43,005** |
| Net profit/(loss) | 12,851 | 4,195 | (236,813) | (126,034) | **(55,253)** |
| Profit/(loss) attributable to equity shareholders of the Company | 12,670 | 4,204 | (236,813) | (126,034) | **(55,253)** |
| Total assets | 482,355 | 1,058,857 | 618,525 | 518,349 | **471,545** |
| Total liabilities | 90,974 | 658,071 | 393,380 | 404,008 | **277,746** |
| | 391,381 | 400,786 | 225,145 | 114,341 | **193,799** |
| Equity attributable to: | | | | | |
| — Equity shareholders of the Company | 391,198 | 400,786 | 225,145 | 114,341 | **193,799** |
| — Non-controlling interests | 183 | – | – | – | **–** |
| | 391,381 | 400,786 | 225,145 | 114,341 | **193,799** |
| Gross profit margin[1] | 45.9% | 33.5% | 29.6% | 15.8% | **17.3%** |
| Net profit margin[2] | 4.0% | 0.9% | (108.3)% | (59.2)% | **(22.3)%** |
| Current ratio[3] | 5.23 | 1.55 | 3.21 | 0.79 | **1.12** |
| Quick ratio[4] | 4.32 | 1.46 | 2.95 | 0.73 | **1.05** |
| Net debt to equity ratio[5] | N/A | 34.4% | 48.0% | 116.0% | **21.6%** |

1. Gross profit margin is calculated by dividing gross profit by revenue.
2. Net profit margin is calculated by dividing net profit by revenue.
3. Current ratio is calculated by dividing total current assets by total current liabilities.
4. Quick ratio is calculated by dividing total current assets less inventories by total current liabilities.
5. Net debt to equity ratio is calculated by dividing interest-bearing liabilities less cash and equivalents by total equity.