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 **2018**

Risecomm Group Product Assembly Hub

Product Assembly Hub located in Changsha, Hunan, the PRC

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yue Jingxing *(Chief Executive Officer)*
Mr. Zhang Youyun
Mr. Lau Wai Leung, Alfred
(redesignated as executive director on January 21, 2019)

NON-EXECUTIVE DIRECTORS

Mr. Wang Shiguang *(Chairman)*
(redesignated as non-executive director on May 25, 2018)
Mr. Zhou, Francis Bingrong
(appointed as executive director on August 21, 2018 and redesignated as non-executive director on January 8, 2019)
Mr. Cheung Fan
(appointed on September 7, 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ong King Keung
Mr. Chen Yong
Mr. Pan Song

COMPANY SECRETARY

Mr. Leung Ka Lok *(HKICPA, FCCA, MBA)*

AUTHORIZED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Yue Jingxing
Mr. Leung Ka Lok *(HKICPA, FCCA, MBA)*

AUDIT COMMITTEE

Mr. Ong King Keung *(Chairman)*
Mr. Chen Yong
Mr. Pan Song

NOMINATION COMMITTEE

Mr. Wang Shiguang *(Chairman)*
Mr. Ong King Keung
Mr. Chen Yong

REMUNERATION COMMITTEE

Mr. Ong King Keung *(Chairman)*
Mr. Yue Jingxing
Mr. Chen Yong

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

COMPLIANCE ADVISER

Messis Capital Limited
Room 1606, 16/F., Tower 2, Admiralty Centre
18 Harcourt Road, Hong Kong

AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Skyworth Building C501
Hi-tech Industrial Park
Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7/F., The Wellington
198 Wellington Street
Central
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 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.risecomm.com.cn

STOCK CODE

1679

The Corporate Mission

ADVANCING TECHNOLOGY FRONTIERS FOR A BETTER LIFE

Risecomm Group heartfelt devotes itself in the development and utilization of Power Line Communication technology for the applications in both commercial and industrial sectors. We strive the best in the continuous research and development on industrial intelligent products and provide effective and efficient smart energy saving solutions to the customers.

We will continue to innovate and forge ahead to create a better tomorrow for the society.

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 December 31, 2018.

Given the continuous changes in the deployment timing of power line communication ("**PLC**") based broadband automated meter reading ("**AMR**") products in 2017, the demand of the PLC based broadband AMR products under the further deployment and upgrades of AMR in the State Grid Corporation of China ("**State Grid**") finally commenced in 2018. However, this posed certain short-term challenges to the Group in the industry as the Group's PLC based broadband AMR products were under the approval process run by the respective departments of State Grid for approving the design and development of broadband system-on-chip integrated circuits ("**IC**") and related AMR products. The Group is of confident to launch out its PLC based broadband AMR products to the market soon to catch up the expected bloom in demand for the deployment of ungraded AMR system by State Grid. Having its persistent research and development ("**R&D**") cultivated in years, the Group is well equipped in aiming to continue its expansion on product ranges in AMR business to meet for the current market need.

Furthermore, with an aim to accelerate the Group's development, the Company completed the acquisition of a business which holds core technology competency within the field of industrial automation systems, particularly in the area of maintenance and safety integrity system ("**MSI**") for the petroleum and petrochemicals industry in the smart manufacturing & industrial automation ("**SMIA**") business segment by utilizing the core technologies and intellectual property rights. The Group considered this acquisition possesses potential synergies and benefits that can serve to expedite the Group's business strategy of expanding its non-AMR revenue contribution to achieve a more balanced revenue composition, lessen its exposure to the inherent risk of reliance on China's power grid ecosystem, and overall expand its revenue stream and further diversify its customer base. Such acquisition provides the Group with direct access to co-service this major customer and gain invaluable technical and project experience to expedite its R&D of PLC based communications solutions tailored for wider industrial applications.

Facing the vibrant changes and further uncertainties in macroeconomy induced by Sino-American Trade Conflicts as well as the changing landscape in the demand on domestic broadband PLC products during 2018, the Group had introduced necessary measures to restructure the workforces in the sales and R&D aspects so as to reduce the operating costs to correspond to the headwinds and difficulties in generating PLC revenue, which can mitigate further losses occurred in the business operation although it was compensated by more revenue generated on the diversification of the non-AMR business into SMIA business.

The Group currently rationalizes its sales channels and research team by streamlining the scale to be maximized in cost and effective way. In addition, the Group is further enhancing its corporate governance as it strives to become an advanced PLC technology company in China, eventually in global aspect and develop all aspects of the Group's operations by continuously leveraging its competitive advantages in a bid to generate greater 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 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.

Wang Shiguang
Chairman & Non-Executive Director

Hong Kong, March 28, 2019

Management Discussion and Analysis

MARKET REVIEW

State Grid commenced commercial deployment of AMR systems in 2010 and it took around 6 years to penetrate the markets with PLC based narrowband AMR products. Due to the penetration of smart meters under first-round commercial deployment was reaching saturation in 2017, State Grid has exhibited a trend of slow-down in its procurement of smart meters in anticipation of a new industry standard for broadband PLC, which was formally adopted in mid 2017. As a result, a temporary slowdown in market during 2017 hampered the overall industry performance. However, with the adoption of new industry standard in 2017, the bidding volume of smart meters and other terminals under State Grid's centralized bidding began to restore back in 2018 after the temporary slowdown in 2017. Such bidding volume was then increased to approximately 52.8 million units in 2018 (2017: 45.6 million units), through two centralized biddings (March & November) conducted by State Grid in 2018 (2017: two biddings). This bounce-back in demand strongly indicated the commencement of PLC based broadband AMR products era.

Furthermore, during the year ended December 31, 2018 (the "**year under review**"), the Group tapped into SMIA business segment with the acquisition of a technology-based business with its core technology competency lies within the field of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry. According to a market report "2018 China Intelligent Manufacturing Development Annual Report" (2018中國智慧製造發展年度報告) released by China Center for Information Industry Development (中國電子資訊產業發展研究院), the market size of China intelligent manufacturing system solutions reached RMB156 billion in 2018, while further expecting to exceed RMB238 billion by 2020. This is a tremendous market which allows the Group to explore in various aspects in the smart manufacturing area. The Group's expansion into SMIA segment contributed a positive benefit to the Group's operations.

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 ICs, modules and devices such as connectors and concentrators, which have been mainly used in the deployment and upgrade of AMR systems for smart meters by power grid companies in China as a key part of the smart grid infrastructure. The Group pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid. In addition, the Group also provided maintenance services on AMR systems on a project-by-project basis. Furthermore, the Group's PLC products also apply to several smart energy business in China, mainly in the area of streetlight controls, building energy management and photovoltaic power management. Secondly, upon the acquisition of Green Harmony Limited ("**Green Harmony**") in August 2018, the Group expanded its business and engages in SMIA business where the Group offered software licenses, production safety products as well as provision of software post-contract customer support services applied in the area of MSI in the petroleum and petrochemicals industry.

During the year under review, the Group recorded revenue of approximately RMB475.8 million (2017: approximately RMB317.3 million), representing an increase of 49.9%.

Our AMR and other business segment recorded a revenue of approximately RMB347.4 million (2017: approximately RMB317.3 million), representing an increase of approximately 9.5%. Revenue from AMR and other business segment for the year under review accounted for approximately 73.0% (2017: 100.0%) of the Group's total revenue. Increase in revenue from AMR and other business segment for the year under review was mainly due to a significant increase in sales of PLC products to customers through trading sales and local biddings under State Grid and China Southern Power Grid Co., Ltd. ("**Southern Grid**") for the year under review as compared to that of the corresponding period in 2017, upon the acquisition of North Mountain Information Technology Company Limited ("**NM Technology**") by the Group during the year under review (together with its subsidiary, which is principally engaged in sales and distribution of electronic components, in particular for ICs and related products in China, details of which were disclosed in the Company's announcement dated March 15, 2018); notwithstanding a significant decrease in revenue from sales of PLC products to customers under State Grid centralized biddings for the year under review as compared to that of the corresponding period in 2017 due to the delay in the debut timing of the Group's PLC based broadband AMR products since such product was under the approval process run by the respective departments of State Grid for approving the design and development of broadband system-on-chip IC and related AMR products.

During the year under review, the Group aimed to broaden the variety of business streams in non-AMR business segment in view of achieving a more balanced revenue composition to mitigate the inherent risk of reliance on the Group's AMR business. With reference to the Company's announcements dated December 28, 2017, January 3, 2018, January 10, 2018, February 12, 2018, March 23, 2018, May 31, 2018, August 15, 2018 and March 15, 2019, the Group completed the acquisition of Green Harmony, which together with its subsidiaries, hold core technology competency within the field of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry in SMIA business segment by utilizing the core technologies and intellectual property rights. One of the major customers of SMIA business includes one of the largest state-owned petroleum conglomerates in China. The Group's SMIA business segment commenced to explore the market of visualization platform of intelligent factory, in addition to application of engineering design software over the pipelining system in petrochemical enterprises, and has begun to build a full range of digital demonstration for other leading state-owned enterprises. In addition, leveraging on the technology-based synergy among the Group's business segments, the Group can facilitate application of the Group's PLC technology with obvious advantages in costing and implementation as a much-suited alternative technology in the future, by creating a significant network communication on vast site areas involved for petroleum and petrochemicals production facilities.

Revenue of approximately RMB128.4 million from SMIA business segment was recognized during the year under review (2017: Not applicable) and it accounted for approximately 27.0% (2017: Not applicable) of the Group's total revenue.

In the fourth quarter of the year under review and with reference to the Company's announcement dated October 23, 2018, the Group signed two new contracts (the "**Contracts**") with aggregated contract sum (includes applicable taxes in relevant jurisdictions) of approximately RMB201 million with its existing major customer, one of the largest state-owned petroleum conglomerates in China, in relation to sale and provision of software product license as well as the provision of software post-contract customer support services under the SMIA business segment. The term of the Contracts ranged from one year to five years and that the Group commenced to recognize such revenue in the same quarter. The Board considers that the signing of the Contracts will further enhance the position of the Group in the petroleum sector in the PRC.

Although a significant increase in revenue for the year under review was resulted, the Group experienced a significant decrease in profit attributable to the equity shareholders of the Company by approximately 66.8% from approximately RMB12.7 million in the corresponding period in 2017 to approximately RMB4.2 million for the year under review. The significant decrease in profit attributable to the equity shareholders of the Company was mainly attributable to (i) an increase in general and administrative expenses for the year under review as compared to that of the corresponding period in 2017 which was primarily attributable to (a) significant charge for the amortization of intangible assets arising from the acquisitions of two businesses by the Group during the year under review where the Group did not incur respective amortization expenses for the corresponding period in 2017, and; (b) an increase in impairment loss on trade receivables which were long aged and considered impaired, and; (ii) an increase in finance costs for the year under review as compared to that of the corresponding period in 2017 which was primarily attributable to costs incurred in relation to issue of Convertible Bonds (as defined below) by the Group in August 2018. The Group did not incur respective finance costs for the corresponding period in 2017.

RESEARCH AND DEVELOPMENT

The Group has been committed to PLC IC design and its applications tailored to China's market environment since the inception in the industry in 2006 by establishing its core competency in designing advanced application-specific ICs, or application-specific integrated circuits ("**ASICs**"), and using these proprietary ASICs to develop the PLC products. As a high-tech company driven by research and development, the Group's research and development efforts are focused on enhancing the functionality of its products and addressing the technical needs of its customers, as well as expanding the Group's product portfolio for different PLC applications. During the year under review, the Group's major research and development project regarding the PLC based broadband system-on-chip was currently under the approval process run by the respective departments of State Grid. Furthermore, through the acquisition of Green Harmony, the Group further expanded its technology base for other industrial applications such as industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry.

As at December 31, 2018, the research and development team of the Group consisted of 101 employees (as at December 31, 2017: 139 employees), representing approximately 28% (as at December 31, 2017: approximately 34%) of the Group's total workforce, specializing in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As at December 31, 2018, the Group held a significant intellectual property portfolio, comprising 42 patents, 101 computer software copyrights and 8 IC layout designs registered, with 14 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 RMB317.3 million for the corresponding period in 2017 to approximately RMB475.8 million for the year under review, or by approximately 49.9%. This increase was mainly attributable to (i) an increase of approximately RMB30.1 million in revenue from the AMR and other business, and; (ii) the introduction of new revenue stream from SMIA which contributed revenue of approximately RMB128.4 million for the year under review where no revenue from SMIA was recorded for the corresponding period in 2017.

Gross profit

Gross profit increased by approximately 9.5% to approximately RMB159.5 million for the year under review from approximately RMB145.7 million for the corresponding period in 2017.

Gross profit margin was approximately 33.5% for the year under review and decreased by approximately 12.4 percentage points as compared with approximately 45.9% for the corresponding period in 2017.

The decrease in gross profit margin of the Group was attributable to a decrease in gross profit margin in AMR and other business segment which resulted from a significant decrease in revenue from sales of PLC products to customers under State Grid centralized biddings (which earned a relatively higher gross profit margin in general) for the year under review despite a significant increase in revenue from sales of PLC products to customers through trading sales and local biddings under State Grid and Southern Grid (which earned a relatively lower gross profit margin in general due to intense market and keen price competition) during the year under review.

Other income

Other income decreased by approximately 31.3% to approximately RMB11.2 million for the year under review from approximately RMB16.3 million for the corresponding period in 2017. The decrease was mainly attributable to recognition of net exchange loss of approximately RMB2.7 million in 2018 while a net exchange gain of approximately RMB2.7 million was recorded in 2017.

Sales and marketing expenses

Sales and marketing expenses decreased slightly by approximately 4.3% to approximately RMB52.8 million for the year under review from approximately RMB55.2 million for the corresponding period in 2017. This decrease was mainly attributable to an implementation of tightened cost control measures by the Group on sales and marketing expenses which resulted in a reduction of the sales and marketing expenses over revenue ratio to approximately 11.1% for the year under review (2017: 17.4%).

General and administrative expenses

General and administrative expenses increased significantly by approximately 49.4% to approximately RMB84.2 million for the year under review from approximately RMB56.4 million for the corresponding period in 2017. This increase was mainly attributable to (i) significant charge for the amortization of intangible assets arising from the acquisitions of two businesses by the Group during the year under review where the Group did not incur respective amortization expenses for the corresponding period in 2017 and (ii) increase in impairment loss on trade receivables which were long aged and considered impaired.

Research and development expenses

Research and development expenses decreased by approximately 21.7% to approximately RMB37.0 million for the year under review from approximately RMB47.2 million for the corresponding period in 2017. This decrease was mainly attributable to a decrease in costs incurred for the research and development project of the Group's PLC based broadband ICs as such project reached its final stage of the development phase during the year under review.

Finance costs

During the year under review, finance costs increased to approximately RMB3.5 million for the year under review from approximately RMB0.3 million for the corresponding period in 2017. The substantial increase in finance costs for the year under review as compared to that of the corresponding period in 2017 was primarily attributable to costs incurred in relation to issue of Convertible Bonds (as defined below) by the Group in August 2018. The Group did not incur respective finance costs for the corresponding period in 2017.

Fair value gains on financial instruments at fair value

During the year under review, the Group recorded fair value gains on financial instruments at fair value of approximately RMB10.4 million (2017: Not applicable) which was attributable to changes in fair value of financial instruments including the Convertible Bonds (as defined below) issued by the Group in August 2018 and the Contingent Share Consideration (as defined below) in relation to the acquisition of NM Technology. The Group did not record respective fair value gains for the corresponding period in 2017.

Income tax credit

Income tax credit decreased by approximately 94.1% to approximately RMB0.6 million for the year under review from approximately RMB9.9 million for the corresponding period in 2017. The decrease was mainly attributable to increase in provision for current tax for the year under review as the taxable profit of the PRC subsidiaries of the Group increased for the year under review.

Profit Attributable to Equity Shareholders of the Company

As a result of the above factors, the profit attributable to equity shareholders of the Company for the year under review decreased by approximately 66.8% to approximately RMB4.2 million (2017: approximately RMB12.7 million).

Liquidity and Financial Resources

During the year under review, the Group's operations were mainly financed by internal resources, including but not limited to existing cash and cash equivalents, anticipated cash flow from its operating activities, the net proceeds generated from the Listing and funds from Convertible Bonds (as defined below) issued. The Board believes that the Group's liquidity needs will be satisfied.

As of December 31, 2018, the Group's current assets amounted to approximately RMB577.2 million (as at December 31, 2017: approximately RMB415.2 million), with cash and cash equivalents totaling approximately RMB267.0 million (as at December 31, 2017: approximately RMB184.6 million). The cash and cash equivalents of the Group are principally held in RMB and USD.

As of December 31, 2018, the Group's total interest-bearing liabilities amounted to RMB404.8 million (as of December 31, 2017: Nil), representing the issued Convertible Bonds (as defined below) and promissory notes issued to the respective vendors in relation to acquisition of Green Harmony. Interest-bearing liabilities amounted to RMB179.1 million and RMB225.7 million will be due to repayable within one year and after one year but within two years, respectively. The coupon rates of interest-bearing liabilities ranges from 4% to 8% per annum. The net debt-to-equity ratio (interest-bearing liabilities less cash and cash equivalents divided by total equity) was approximately 34.4% as of December 31, 2018 (as of December 31, 2017: Not applicable).

Issue of convertible bonds

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

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the year under review and the corresponding period in 2017, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Capital Commitments

As at December 31, 2018, the Group had no capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements (as at December 31, 2017: approximately RMB0.2 million).

Contingent Liabilities

As at December 31, 2018, the Group had no contingent liabilities (as at December 31, 2017: Nil).

Charge on assets

As at December 31, 2018, the Group had no charge of assets (as at December 31, 2017: Nil).

Material Acquisition and Disposal of Subsidiaries and Associated Companies

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

Pursuant to the NM SPA, if it is revealed by the unaudited consolidated management accounts of the NM Technology that NM Technology achieves a consolidated profit after tax (excluding extraordinary items) in an amount of not less than RMB3 million for the period commencing from January 1, 2018 up to the relevant accounts date of the unaudited consolidated management accounts of NM Technology (the "**NM Performance Target**"), Harvest Year shall pay to NM Infortech Company Ltd. (the "**NM Vendor**") RMB15 million (the "**Third Payment**") in cash for payment of part of the consideration (the "**NM Consideration**") for the acquisition. NM Technology has achieved the NM Performance Target and Harvest Year has paid to the NM Vendor the Third Payment in cash for payment of part of the NM Consideration in July 2018. Furthermore, the final payment (the "**NM Final Payment**") of the NM Consideration for the Acquisition of NM Technology (subject to adjustment and deduction) will be determined and settled by the allotment and issue of consideration shares (the "**Contingent Share Consideration**") by the Company to the NM Vendor. The Board expects to fully settle the NM Final Payment by allotting and issuing the consideration shares to the NM Vendor in 2019.

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

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

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

Pursuant to the GH SPA, if it is revealed by the unaudited consolidated management accounts of Green Harmony that for the period commencing from January 1, 2018 up to the relevant accounts date of the unaudited consolidated management accounts, Green Harmony achieves (i) a consolidated profit after tax (excluding extraordinary items) in an amount of not less than HKD20 million, the Company will redeem from the GH Vendor the principal amount of HKD100 million of the First Promissory Note (together with the interest accrued thereon from the date of issue of the First Promissory Note and up to the date of redemption) by way of cash; and (ii) a consolidated profit after tax (excluding extraordinary items) in an amount of not less than HKD30 million, the Company will redeem from the GH Vendor the remaining principal amount of HKD100 million of the First Promissory Note (together with the interest accrued thereon from the date of issue of the First Promissory Note and up to the date of redemption) by way of cash.

On March 18, 2019, the Company redeemed from the GH Vendor the principal amount of HKD100 million of the First Promissory Note, together with payment of the accrued interest. As at the date of this report, the remaining principal amount of the First Promissory Note is HKD100 million.

In the event that the audited consolidated net profit after taxation of the Green Harmony and its subsidiaries for the year ending December 31, 2018 is less than HKD50 million, each of the GH Vendor and its ultimate beneficial owners shall make a payment to the Company in an amount calculated in accordance with the adjustment formula as stipulated in the GH SPA. The outstanding principal amount of the First Promissory Note and the Second Promissory Note will be used to offset the amount payable by the GH Vendor and its ultimate beneficial owners to the Company under such adjustment mechanism. The Board expects to determine whether the adjustment mechanism will apply in 2019.

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

Saved as disclosed above, during the year under review, there was no other material acquisition or disposal of subsidiaries or associated companies.

PROSPECTS

Having the expected turnaround in the demand on the bidding volume of smart meters and other terminals under the centralized biddings conducted by the State Grid in 2019, it is further expected that the procurement of AMR products by State Grid will reach 87.7 million units by 2021 as smart meters and other terminals in China was undergoing to enter into a new phase of upgrades starting from 2018 onwards, in accordance with a market research. The bidding volume of smart meters and other terminals conducted by State Grid and Southern Grid is expected to grow at a compound annual growth rate of 11.5% from years 2017 to 2021. However, under recent changes in market competition in AMR and other business segment, the management will use their best endeavor to develop the PLC based broadband products and to retain our competitiveness in the AMR industry in China.

Leveraging on the Group's core competency in PLC based communications solutions possesses significant untapped potential for other industrial applications such as industrial automation systems, where production facilities, machineries and equipment are typically linked and powered by established power-lines and cables, essentially ready for implementation of PLC based communications applications to enable/enhance automation, remote control and monitoring. The Group completed the acquisition of Green Harmony in 2018 which is principally engaged in the field of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry in view of tapping into the enormous market with significant growth potential. With this acquisition, the Group initiated another new line of business under SMIA business segment. The Group believed that the growth of China industrial automation market would continue to be healthy given its relatively lower penetration rate and the rising cost of labor at present. As petrochemical enterprises are the pioneer of the manufacturing sector in China, major market participants are building smart oil fields, smart pipelines and smart factories. The Group will continue to opt for opportunities in the design and implementation of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry by utilizing the Group's own technologies and intellectual property rights.

Further, the Group commenced to explore the market of visualization platform of intelligent factory, particularly on the reverse modeling of the pipelining system in petrochemical enterprises and the forward modeling of new pipelining projects. The Group has begun to build a full range of digital demonstration for other leading state-owned enterprises such as coal/chemical industry. In addition, leveraging on the technology-based synergy among the Group's business segments, the Group can facilitate the application of PLC technology with obvious advantages in costing and implementation as a much-suited alternative technology in the future, by creating a significant network communication on vast site areas involved for petroleum and petrochemicals production facilities.

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Yue Jingxing (岳京興) ("Mr. Yue"), aged 61, is an executive Director and chief executive officer of the Company responsible for overall strategic planning, research and development directions and business development of the Group.

Mr. Yue 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. Mr. Yue has been a director of Risecomm (HK) Holding Co. Limited ("**Risecomm HK**"), Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), Beijing Risecomm Communication Technology Company Limited ("**Risecomm Beijing Comm**"), Shenzhen Risecomm Software Technology Company Limited, 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, March 2014, April 2014, 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 20 years of experience in IC design. Prior to founding the Group in May 2006, Mr. Yue worked in Hughes Network Systems (currently known as Hughes), a company in the United States 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 the United States in May 1991.

As of December 31, 2018, 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.

Zhang Youyun (張友運) ("Mr. Zhang"), aged 59, is an executive Director responsible for overall operational and administrative management of the Group. Mr. Zhang was appointed as a Director in February 2016 and was designated as an executive Director in May 2017. Mr. Zhang has joined the Group as an administrative controller of Risecomm WFOE since June 2006. Mr. Zhang has been the executive vice president of Risecomm WFOE since April 2015, a director of Changsha Risecomm Communication Technology Company Limited ("**Risecomm Changsha**") since December 2014 and NM Technology since April 2018. Mr. Zhang was a director of Risecomm (Beijing) Technology Company Limited ("**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).

As of December 31, 2018, Mr. Zhang 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 38, is an executive Director. He was appointed as a non-executive Director on November 22, 2017 and was re-designated as an executive director on January 21, 2019. Mr. Lau is responsible for overall corporate finance, capital management and strategic planning of the Group.

Mr. Lau has over 15 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 the GEM of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 8200) since December 2016.

NON-EXECUTIVE DIRECTORS

Wang Shiguang (王世光) ("Mr. Wang"), aged 47, is the chairman of the Board and a non-executive Director responsible for overall sales and marketing strategy and market development directions of the Group. He was appointed as a Director in February 2016, and was designated as an executive Director and the chairman of the Board in May 2017. Mr. Wang was subsequently re-appointed as a non-executive Director at the annual general meeting of the Company held in May 2018 and remains as the chairman of the Board. He is the spouse of Ms. Chen Junling, the general manager of Risecomm Beijing Comm. Mr. Wang has been the senior vice president of Risecomm WFOE and Risecomm Beijing Comm since June 2014 and a director of Old Cayman, Risecomm HK and Risecomm HK Technology since April 2015, March 2016 and March 2016, respectively.

Mr. Wang has more than 15 years of experience in electronics and power meter sales and marketing. Prior to joining the Group, Mr. Wang was the chairman of the board and general manager of Beijing Rui Si Kang Electronics Company Limited ("**Beijing RSK Electronics**"), the Group's previous strategic sales partner, from September 2009 to March 2014 responsible for overall strategic planning and operational management of Beijing RSK Electronics. He acted as the chairman of the board and general manager of Beijing Dragon Electrical Industry and Technology Company Limited (北京龍電基業電氣技術有限公司), a company engaged in, among others, sales of electronics related equipment and components, from May 1999 to September 2009 responsible for overall strategic planning and operational management of the company.

Mr. Wang graduated from Henan University (河南大學) in the PRC with a major in Accounting (correspondence course) in July 1996. Mr. Wang obtained a master's degree in Business Administration (distance learning course) at the Open University of Hong Kong in Hong Kong in June 2016.

As of December 31, 2018, Mr. Wang 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.

Cheung Fan (張帆) ("Mr. Cheung"), aged 47, was appointed as a non-executive Director on September 7, 2018.

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. He is the chief executive officer and a director of Long Asia Securities and Futures Limited since 2017 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).

Zhou Francis Bingrong (周冰融) ("Mr. Zhou"), aged 34, is a non-executive Director. He was appointed as an executive Director on August 21, 2018 and was re-designated as a non-executive Director on January 8, 2019. Mr. Zhou has extensive experience in corporate finance and strategy, financial analysis and the capital markets. He started his career as an M&A Analyst with a boutique investment bank. He holds a Bachelor of Arts degree in Economics and Asian Studies from Bowdoin College in Brunswick, Maine, United States.

Mr. Zhou is currently a senior advisor to the Board of Value Convergence Holdings Limited ("**Value Convergence**"), a company listed on the Main Board of the Stock Exchange (stock code: 821) and was the vice chairman and an executive director of Value Convergence, from January 22, 2018 to April 16, 2018. Mr. Zhou is currently an executive director and the chief executive officer of Madison Holdings Group Limited ("**Madison**"), a company listed on the GEM of the Stock Exchange (stock code: 8057) since January 7, 2019 and was an executive director and the deputy chairman of Madison from April 17, 2018 to August 24, 2018. Mr. Zhou was the president of Silk Road Energy Services Group Limited ("**Silk Road**"), a company listed on the GEM of the Stock Exchange (stock code: 8250) from January 22, 2018 to December 19, 2018 and was the vice chairman and an executive director of Silk Road from March 11, 2016 to January 22, 2018. Mr. Zhou also held senior equity research positions with prominent regional and China-based investment banks, such as China International Capital Corporation (Hong Kong) Limited and Daiwa Capital Markets Hong Kong Limited. He also served as vice president of Financial Planning & Analysis for Galaxy Entertainment Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Song (潘嵩) ("Mr. Pan"), aged 46, was appointed as an independent non-executive Director on May 16, 2017. Mr. Pan is responsible for providing independent judgment and scrutinizing the performance of the Group.

Mr. Pan has over 15 years of working experience in the areas of engineering and research. From 1995 to 1996, he worked as an engineer at Dalian Sanko Air Conditioning Engineering Technology Services Ltd. (大連三晃空調工程技術服務有限公司) responsible for design and construction management. From 1996 to 1998, he worked as a researcher at Sanko Air Conditioning Co., Ltd. (三晃空調株式会社) in Japan. From 1998 to 1999, Mr. Pan resumed to work as an engineer at Dalian Sanko Air Conditioning Engineering Technology Services Ltd. (大連三晃空調工程技術服務有限公司) responsible for design and construction management. From October 2001 to March 2006, he worked as a research officer at Nakahara Laboratory, Environmental Syst.-Tech. (日本環境系統技術中原研究處). From March 2006 to February 2010, Mr. Pan resumed his work as a researcher at Sanko Air Conditioning Co., Ltd. (三晃空調株式会社) in Japan. Since October 2011, Mr. Pan has been working as a research associate of the Faculty of Architecture and Civil Engineering at Beijing University of Technology (北京工業大學). Mr. Pan has become an expert of the inspection committee of the technology center of the Ministry of Housing and Urban-Rural Development of the PRC (中國住房和城鄉建設部科技中心) since May 2016.

Mr. Pan obtained a bachelor's degree in Thermal Engineering from Tsinghua University (清華大學) in the PRC in July 1995. He then obtained a master's degree in Engineering from the Tokyo Institute of Technology (東京工業大學) in Japan in September 2001 and a doctorate in Engineering from the Graduate School of Engineering at Kyoto University (京都大學) in Japan in May 2009. The article "The Diagnosis and Countermeasure Analysis of Energy Saving of Beijing Metro《北京地鐵節能診斷與對策分析》, co-authored by Mr. Pan and others, was awarded the third prize of the outstanding achievements (suggestions category) of Beijing Federation of Theoretical Research and Investigation Research (北京市僑聯系統理論研究和調查研究優秀成果(建言獻策類)) in December 2013.

Chen Yong (陳永) ("Mr. Chen"), aged 63, was appointed as an independent non-executive Director on May 16, 2017. Mr. Chen is responsible for providing independent judgment and scrutinizing the performance of the Group.

Mr. Chen has over 35 years of working experience in the fields of education, administration and management. Mr. Chen commenced his career as a teacher at Shandong University (山東工業大學) (currently known as Shandong University (山東大學)) in 1978. From 1978 to 1987 and 1987 to 1994, he worked as a teaching assistant, lecturer and deputy professor in the Department of Mechanics and the deputy secretary and secretary at Faculty of Chemical Engineering responsible for education management, respectively. From 1994 to 2000 and September 2000 to December 2007, Mr. Chen worked as the director of General Office of the university responsible for administration management and the director and general manager of the logistics management department responsible for administration and operation management, respectively. From December 2007 to December 2015, Mr. Chen has been acting as the minister of the United Front Work department (統戰部) of Shandong University responsible for the united front work of the university.

Mr. Chen was a member of the 10th council of the Chinese People's Political Consultative Conference of Shandong Province. He holds several social titles including the 3rd and 4th chief secretary of Mechanics Society of Shandong and the 2nd and 3rd chief secretary of Logistics Management and Research Society of Shandong High School (山東高校).

Mr. Chen completed the program of Welding Technology and Equipment at Shandong University (山東工業大學) (currently known as Shandong University (山東大學)) in the PRC in July 1977. He then completed the postgraduate program in Management at Shandong University (山東大學) in the PRC in June 1999. He also obtained the qualification of the researcher (professor) and third graded researcher (professor) from Shandong University (山東大學) in the PRC in November 1999 and June 2009, respectively. Mr. Chen obtained the second prize of Shandong Science & Technology Improvement Award (山東省科學技術進步二等獎) awarded by Science and Technology Improvement Award Committee of Shandong Province (山東省科學技術進步獎評審委員會) in December 1997.

Ong King Keung (王競強) ("Mr. Ong"), aged 43, was appointed as an independent non-executive Director on May 16, 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 is currently a director of a professional audit firm in Hong Kong. He has over 15 years of experience in auditing and accounting industry. Mr. Ong is an independent non-executive director of China Water Affairs Group Limited (stock code: 855), the shares of which are listed on the main board of the Stock Exchange. Mr. Ong is also an independent non-executive director of Bingo Group Holdings Limited (stock code: 8220), and My Heart Bodibra Group Limited (stock code: 8297) respectively, their respective shares of which are listed on the GEM of the Stock Exchange. Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (stock code: 8268), the shares of which are listed on the GEM of the Stock Exchange, since December 2014 and has been subsequently re-designated as a non-executive director since December 2015. Mr. Ong is currently the company secretary of Unity Investments Holdings Limited (stock code: 913), Kenford Group Holdings Limited (stock code: 464) and China Kangda Food Company Limited ("**Kangda**") (stock code: 834) (SGX Stock code: P74), their respective shares of which are listed on the main board of the Stock Exchange and Kanda's shares are also listed on the Main Board of the Singapore Exchange Securities Trading Limited.

Mr. Ong was an independent non-executive director of Koala Financial Group Limited (formerly known as Sunrise (China) Technology Group Limited) (stock code: 8226) for the period from February 2017 to September 2017 and China Candy Holdings Limited (stock code: 8182) for the period from February 2016 to September 2017 respectively, the shares of which are listed on the GEM of the Stock Exchange, and Tech Pro Technology Development Limited (stock code: 3823) for the period from March 2017 to February 2019, the shares of which are listed on the main board of the Stock Exchange. Mr. Ong was also the company secretary of Zhi Cheng Holdings Limited (stock code: 8130) during the period from April 2018 to September 2018, the shares of which are listed on the GEM of the Stock Exchange.

SENIOR MANAGEMENT OF THE GROUP

Leung Ka Lok (梁家樂) ("Mr. Leung"), aged 48, was appointed as the chief financial officer and company secretary of the Company on May 16, 2017. Mr. Leung has been a director of each of Harvest Year and Prime Key since March 2016.

Mr. Leung has joined the Group since January 2016 and has over 20 years of experience in auditing and accounting industry. Mr. Leung was admitted as a fellow of The Association of Chartered Certified Accountants in January 2001. He has also been an associate of The Chartered Association of Certified Accountants (currently known as The Association of Chartered Certified Accountants) since January 1996 and a member of Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants) since January 1996. He obtained a bachelor's degree in Accountancy from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in Hong Kong in November 1992 and a master's degree in Business Administration (distance learning course) from The University of Manchester in the United Kingdom in June 2007.

Chen Junling (陳俊玲) ("Ms. Chen"), aged 46, 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 the chairman of the Board and a non-executive Director.

Ms. Chen has over 15 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.

Zhang Baojun (張保軍) ("Mr. Zhang BJ"), aged 51, is the vice president and chief engineer of Risecomm WFOE responsible for product research and development and promotion of the AMR business. He has joined the Group as the vice president and chief engineer of Risecomm WFOE since June 2012. Mr. Zhang BJ has over 25 years of experience in the electricity industry. Mr. Zhang BJ commenced his career in Harbin Electrical Instruments Research Institute, an institute engaged in, among others, development of instruments and automation measurement and control systems in 1989 as an engineer until 1995. From 1995 to 2005, he worked as a research and development manager, assistant general manager and chief engineer, respectively at Heilongjiang Longdian Electric Co., Ltd., a company engaged in, among others, the development of mechatronics instruments and automatic control technology and related products. From July 2005 to May 2012, Mr. Zhang BJ worked as the chief engineer in Shenzhen RMS Technology. He was also a shareholder, executive director and general manager of Shenzhen RMS Technology prior to joining the Group in June 2012.

Mr. Zhang BJ obtained a bachelor's degree in Engineering from Harbin Institute of Electrical Engineering (currently known as Harbin University of Science and Technology) in the PRC in July 1989.

Liu Ming (劉明) ("Mr. Liu"), aged 48, 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 Tech since May 2016.

Mr. Liu has over 20 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 44, is the 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, Risecomm HK Technology and Risecomm Changsha since December 2015.

Ms. Chen SY has over 15 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.

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 December 31, 2018.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 19, 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 13 and 14 to the consolidated financial statements, respectively.

SHARE CAPITAL

As of December 31, 2018, the total issued share capital of the Company was approximately HKD81,125, divided into 811,247,421 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 27 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 28 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 major operating subsidiary of the Group received ISO14001:2004 environmental management system certification, which is valid to December 2021 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 applicable PRC laws and regulations, the Group provides its employees with basic pension insurance, 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 labor disputes or disputes with the labor department of the PRC government during the year under review.

The major operating subsidiary of the Group has received OHSAS18001:2007 certification for occupational health and safety management, which is valid to December 2021 and subject to renewal. The Group has implemented safety measures at its product assembly hubs 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. 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 Southern Grid. 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). 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 Group relies on power grid companies to continuously select and adopt the communications protocols of its products as part of the technical specifications of the AMR devices they deploy. These technical specifications may correspond to the features of any competing communications protocols and products offered by different PLC technology companies, and power grid companies may select different communications protocols for different type of AMR devices in different grid locations. Power grid companies may consider a variety of factors in selecting the adopted communications protocols for its deployment of new AMR systems or upgrade of existing AMR systems.

To manage 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.

Exchange rate risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. However, the net proceeds from initial global offering raised by the Company is denominated in HKD. The fluctuation of RMB exchange rate will cause exchange loss or gain to the Group's business transacted in foreign currencies. To manage the effect from exchange rate fluctuation, the Group will persistently assess the risk exposure of exchange rate.

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 December 31, 2018 comprised the share premium and accumulated losses of RMB129,594,000 (2017: RMB147,842,000).

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 *(Chief Executive Officer)*
Mr. Zhang Youyun
Mr. Lau Wai Leung, Alfred
(redesignated from non-executive Director to executive Director on January 21, 2019)

Non-executive directors:

Mr. Wang Shiguang *(Chairman)*
(redesignated from executive Director to non-executive Director on May 25, 2018)
Mr. Ng Benjamin Jin-ping
(retired on May 25, 2018)
Mr. Zhou, Francis Bingrong
(appointed as executive Director on August 21, 2018 and redesignated as non-executive Director on January 8, 2019)
Mr. Cheung Fan
(appointed on September 7, 2018)

Independent non-executive directors:

Mr. Ong King Keung
Mr. Chen Yong
Mr. Pan Song

DIRECTORS' PROFILES

Directors' profiles are set out on page 14 to 17 of this report.

Pursuant to Article 83(3) of the Articles, Mr. Zhou, Francis Bingrong and Mr. Cheung Fan (the "**Retiring Directors**") will retire at the forthcoming annual general meeting ("**2019 AGM**"). Both Retiring Directors, being eligible, will offer themselves for re-election at the 2019 AGM.

Pursuant to Article 84(1) of the Articles, Mr. Yue Jingxing, Mr. Chen Yong and Mr. Pan Song will retire at the 2019 AGM, and being eligible, will offer themselves for election at the 2019 AGM.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Director's biographical details since the date of the Interim Report 2018 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") are set out below:

<table>
<tr><th>Name of Director</th><th colspan="2">Details of Change</th></tr>
<tr><td>Mr. Zhou, Francis Bingrong</td><td colspan="2">Mr. Zhou has been re-designated from an executive Director to a non-executive Director on January 8, 2019 for an initial term of three years and the annual director's fee of Mr. Zhou has been adjusted to HKD120,000.

Mr. Zhou was appointed as an executive director and the chief executive officer of Madison Holdings Group Limited (stock code: 8057) on January 7, 2019.</td></tr>
<tr><td>Mr. Lau Wai Leung, Alfred</td><td colspan="2">Mr. Lau has been re-designated from a non-executive Director to an executive Director on January 21, 2019 for an initial term of one year renewable automatically for successive term of one year and the director's fee of Mr. Lau has been adjusted to HKD50,000 per month.</td></tr>
<tr><td>Mr. Ong King Keung</td><td colspan="2">Mr. Ong has the following changes in his biographical details:</td></tr>
<tr><td></td><td>Company Name</td><td>Change Details</td></tr>
<tr><td></td><td>Zhi Cheng Holdings Limited
(stock code: 8130)</td><td>resigned as company secretary on
September 21, 2018</td></tr>
<tr><td></td><td>China Kangda Food Company Limited
(stock code: 834)
(SGX stock code: P74)</td><td>Appointed as company secretary on January 13, 2019</td></tr>
<tr><td></td><td>Tech Pro Technology Development
Limited (stock code: 3823)</td><td>resigned as an independent non-executive director
on February 18, 2019</td></tr>
</table>

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

Mr. Yue Jingxing, an executive Director, entered into a service contract with the Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wang Shiguang (who was redesignated from executive Director to a non-executive Director on May 25, 2018) entered into a service contract with the Company for his appointment as executive Director for a term of three years from June 9, 2017 until terminated by not less than three months' notice in writing served by either party on the other and such service contract was terminated since his redesignation as non-executive Director at the Company's 2018 annual general meeting (the "**2018 AGM**") held on May 25, 2018.

Mr. Zhou, Francis Bingrong (who was appointed as executive Director on August 21, 2018) entered into a service contract with the Company for an initial term of three years renewable automatically for successive term of one year commencing from the next day after the expiry of the current term of his appointment, unless terminated by not less than three months' notice in writing served by either party on the other. Such service contract was terminated since his redesignation as non-executive Director on January 8, 2019.

Mr. Lau Wai Leung, Alfred (who was redesignated from non-executive Director to Executive Director on January 21, 2019) entered into a service contract with the Company for his appointment as non-executive Director for an initial term of one year renewable automatically for successive term of one year commencing from the next day after the expiry of the current term of his appointment, unless terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors (including independent non-executive Directors), except for Mr. Wang Shiguang and Mr. Lau Wai Leung, Alfred, entered into a letter of appointment with the Company for an initial term of three years until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wang Shiguang and Mr. Lau Wai Leung, Alfred each entered into a letter of appointment as non-executive Director with the Company for an initial term of one year renewable automatically for successive term of one year commencing from the next day after the expiry of the current term of his appointment, unless terminated by not less than three months' notice in writing served by either party on the other. Mr. Lau Wai Leung, Alfred's letter of appointment as non-executive Director was terminated since his redesignation as the executive Director on January 21, 2019.

Mr. Zhou, Francis Bingrong who was redesignated from executive Director to non-executive Director on January 8, 2019, entered into a letter of appointment as non-executive Director with the Company for an initial term of three years until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a service contract 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 31(b) 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 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 10 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 December 31, 2018, 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 Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (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))	91,943,624 (L)	11.33%
		Beneficial owner (Note 2(ii))	863,587 (L)	0.11%
Mr. Wang Shiguang	The Company	Interest of spouse (Note 3)	97,527,845 (L)	12.02%
Mr. Zhang Youyun	The Company	Interest in a controlled corporation (Note 4(i))	940,859 (L)	0.12%
		Beneficial owner (Note 4(ii))	1,841,423 (L)	0.23%

* The percentage represents the number of shares/underlying shares involved divided by the number of the issued Shares as of December 31, 2018.

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 91,943,624 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 Jingxing under the Pre-IPO Share Option Scheme.

(3) Mr. Wang, an executive Director, the chairman of the Board and the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen Junling's interest in the Company by virtue of the SFO.

(4) Mr. Zhang is the sole shareholder of Glorious Lead Limited ("**Glorious Lead**"), which holds 940,859 Shares. By virtue of the SFO, Mr. Zhang is deemed to be interested in the Shares in which Glorious Lead is interested. The disclosed interest represents (i) the interest in the Company held by Glorious Lead; and (ii) options held by Mr. Zhang under the Pre-IPO Share Option Scheme.

Save as disclosed above, as of December 31, 2018, 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 December 31, 2018, 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	91,943,624 (L)	11.33%
Ms. Chen Junling	Interest in a controlled corporation (Note 2)	97,527,845 (L)	12.02%
Magical Success Holdings Limited ("**Magical Success**")	Beneficial owner (Note 2)	97,527,845 (L)	12.02%
SB Asia Investment Fund II L.P. ("**SAIF**")	Beneficial owner (Note 3 & 4)	197,340,537 (L) (Note 8)	24.33%
SAIF II GP L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	24.33%
SAIF Partners II L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	24.33%
SAIF II GP Capital Ltd.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	24.33%
Mr. Andrew Y. Yan	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	24.33%
Cisco System, Inc	Interest in a controlled corporation (Note 4)	197,340,537 (L) (Note 8)	24.33%
Dongxing Securities (Hong Kong) Financial Holdings Limited ("**Dongxing HK**")	Beneficial owner (Note 5)	45,000,000 (L) (Note 8)	5.55%
Dongxing Securities Co., Ltd ("**Dongxing Securities**")	Interest in a controlled corporation (Note 5)	45,000,000 (L) (Note 8)	5.55%
Spitzer Fund VI L.P.	Beneficial owner	90,467,000 (L) (Note 8)	11.15%
Software Research Associates, Inc. ("**SRA**")	Beneficial owner (Notes 6 & 7)	60,000,000 (L) (Note 8)	7.40%
SRA Holdings, Inc. ("**SRA Holdings**")	Interest in a controlled corporation (Notes 6 & 7)	60,000,000 (L) (Notes 8)	7.40%

* The percentage represents the number of Shares/underlying Shares involved divided by the number of the issued Shares as of December 31, 2018.

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.

(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) Dongxing HK is wholly owned by Dongxing Securities. By virtue of the SFO, Dongxing Securities is deemed to be interested in the Shares in which Dongxing HK is interested.

(6) These 60,000,000 Shares represented the total number of 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 HKD150,000,000 at the Initial Conversion Price of HKD2.50 per Share. The exercise of the conversion rights attaching to the Convertible Bonds is subject to the terms and conditions thereof.

(7) 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.

(8) Based on the disclosure of interests forms submitted by these substantial shareholders respectively as of December 31, 2018.

Save as disclosed above, as of December 31, 2018, 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 subscription agreements for the issue of the Convertible Bonds, the NM SPA 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 23, 30(a) and 24 to the consolidated financial statement for further information about the subscription agreements for the issue of the Convertible Bonds, NM SPA and the Share Option Schemes.

SHARE OPTION SCHEMES

Share Option Scheme

As disclosed in the prospectus of the Company dated May 29, 2017 (the "**Prospectus**") the Company adopted a share option scheme (the "**Share Option Scheme**") on May 16, 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 June 9, 2017.

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 June 9, 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 Director's Report, the total number of Shares available for issue under the Share Option Scheme was 80,000,000 Shares, representing about 9.72% of the issued share capital of the Company. 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 June 9, 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 quotations 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	Exercisable period	Number of shares granted	Exercise Price per Share HKD	During the period under review: Granted	Exercised	Cancelled	Lapsed	Outstanding as at December 31, 2018
September 3, 2018	From September 3, 2018 to September 2, 2026	1,125,000	1.71	1,125,000	–	–	–	1,125,000
September 3, 2018	From September 3, 2020 to September 2, 2026	4,791,669	1.71	4,791,669	–	–	–	4,791,669
September 3, 2018	From September 3, 2021 to September 2, 2026	4,791,669	1.71	4,791,669	–	–	–	4,791,669
September 3, 2018	From September 3, 2022 to September 2, 2026	4,791,662	1.71	4,791,662	–	–	–	4,791,662
Total		**15,500,000**		**15,500,000**	**–**	**–**	**–**	**15,500,000**

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.

As at December 31, 2018, the total number of shares available for issue under the Share Option Scheme was 64,500,000, representing approximately 7.95% of the Company's issued share capital at December 31, 2018, and the remaining life of the Share Option Scheme was approximately 8 years.

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 Prospectus, the Company adopted the Pre-IPO Share Option Scheme on August 25, 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 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 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 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 after its adoption date.

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

Directors

Name of Directors	Date of grant	Exercisable period	Outstanding as at December 31, 2017	Exercise Price per Share (Note 1) USD	During the year under review				Outstanding as at December 31, 2018
					Granted	Exercised	Cancelled	Lapsed	
Mr. Yue Jingxing	August 25, 2016	From August 25, 2016 to March 25, 2024	863,587	0.0003	–	–	–	–	863,587
Mr. Zhang Youyun	August 25, 2016	From August 25, 2016 to March 25, 2024	1,841,423	0.0003	–	–	–	–	1,841,423
	Sub-total		**2,705,010**		**–**	**–**	**–**	**–**	**2,705,010**

Employees

Date of grant	Exercisable period	Outstanding as at December 31, 2017	Exercise Price per Share (Note 1) USD	During the year under review				Outstanding as at December 31, 2018
				Granted	Exercised	Cancelled	Lapsed	
August 25, 2016	From August 25, 2016 to March 25, 2024	9,965,519	0.0003	–	(370,118)	–	–	9,595,401
	Sub-total	**9,965,519**	**0.0003**	**–**	**(370,118)**	**–**	**–**	**9,595,401**
	Total	**12,670,529**		**–**	**(370,118)**	**–**	**–**	**12,300,411**

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.

No further options were granted under the Pre-IPO Share Option Scheme on or after June 9, 2017 as the right to do so terminated on June 9, 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 5(b) (i) 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 31 to the consolidated financial statements. Transaction as set out in note 31(b) 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

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

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 19.1% (2017: approximately 16.3%) and the aggregated revenue attributable to the five largest customers accounted for approximately 40.1% (2017: approximately 32.4%) of the total revenue of the Group.

During the year under review, the Group's largest supplier (including outsourced service provider) accounted for approximately 25.1% (2017: approximately 20.0%) and the aggregated purchases (including outsourced service fees) attributable to the Group's five largest suppliers (including outsourced service providers) accounted for approximately 50.3% (2017: approximately 58.6%) of the total purchases (including outsourced service fees) of the Group.

None of the directors, their 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 the annual report, there was a sufficient prescribed public float of the issued Shares under the Listing Rules.

USE OF PROCEEDS

References are made to the announcements of the Company dated June 8 and June 21, 2017. The aggregated net proceeds from the global offering of the Shares in connection with the Listing and exercise of the over-allotment option by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (as defined in the Prospectus)) was approximately HKD158.2 million. Proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

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

From Initial Global Offering

	Actual Net proceeds HKD 'million	Amount utilized as at December 31, 2018 HKD 'million	Unutilized net proceeds as at December 31, 2018 HKD 'million
Research and development of the PLC technology	95.7	31.4	64.3
Sales and marketing	32.0	6.0	26.0
Repayment of an entrusted bank loan	14.7	14.7	–
Working capital and general corporate purposes	15.8	15.8	–
	158.2	67.9	90.3

As at the date of this report, the Company does not anticipate any change to the above plan of use of proceeds. The remaining unutilized net proceeds as at December 31, 2018 are expected to be fully utilized on or before December 31, 2020.

From Issue of the Convertible Bonds

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

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

	Actual Net proceeds HKD'million	Amount utilized as at December 31, 2018 HKD'million	Unutilized net proceeds as at December 31, 2018 HKD'million
Settle consideration for the acquisition of Green Harmony	146.0	100.0	46.0

As at the date of this report, the Company does not anticipate any change to the above plan of use of proceeds. The remaining unutilized net proceeds as at December 31, 2018 have been utilized in March 2019.

EMPLOYEE INFORMATION

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

As at December 31, 2018, the Group had an aggregate of 355 employees (as at December 31, 2017: 410 employees). The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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

CLOSURE OF REGISTER OF MEMBERS FOR 2019 AGM

The register of members of the Company will be closed from Monday, May 20, 2019 to Thursday, May 23, 2019 (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 Thursday, May 23, 2019 (the "**2019 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2019 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Friday, May 17, 2019.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events to cause material impact on the Group from the end of the year under review to the date of this report are set out in note 33 to the consolidated financial statements.

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 147 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

A resolution will be submitted to the 2019 AGM to re-appoint KPMG as auditor of the Company.

On behalf of the Board

Yue Jingxing
Chief Executive Officer and Executive Director

Hong Kong, March 28, 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "**Board**") of the Company 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.

The Board is of the view that throughout the year under review, the Company has complied with all the code provisions as set out in the CG Code.

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 as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to all the Directors and the Directors have confirmed that they have complied with 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 of the Company currently comprises the following Directors:

Executive Directors
Mr. Yue Jingxing *(Chief Executive Officer and Member of Remuneration Committee)*
Mr. Zhang Youyun
Mr. Lau Wai Leung, Alfred

Non-executive Directors
Mr. Wang Shiguang *(Chairman and Chairman of Nomination Committee)*
Mr. Zhou, Francis Bingrong
Mr. Cheung Fan

Independent Non-executive Directors
Mr. Ong King Keung *(Chairman of Audit Committee and Remuneration Committee, and Member of Nomination Committee)*
Mr. Chen Yong *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. Pan Song *(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 14 to 19 of this report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Wang Shiguang and Mr. Yue Jingxing, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the year under review, the Board at all times met 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 of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors), except Mr. Wang Shiguang (who was redesignated from executive Director to non-executive Director at the Company's 2018 AGM held on May 25, 2018) and Mr. Lau Wai Leung, Alfred (who was redesignated from non-executive Director to executive Director on January 21, 2019) who are appointed for an initial term of one year, are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's 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	A
Mr. Zhang Youyun	A
Mr. Lau Wai Leung, Alfred	A
Non-Executive Directors	
Mr. Wang Shiguang	A & B
Mr. Zhou, Francis Bingrong	A
Mr. Cheung Fan	A
Independent Non-Executive Directors	
Mr. Ong King Keung	A
Mr. Chen Yong	A & B
Mr. Pan Song	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), Mr. Chen Yong and Mr. Pan Song.

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 works, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditor once 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 Mr. Chen Yong, 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; (c) making recommendations to the Board on the remuneration packages of individual Directors and senior management.

The Remuneration Committee met once 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
HKD500,001–HKD1,000,000	1
HKD1,000,001–HKD1,500,000	–
HKD1,500,001–HKD2,000,000	3
HKD2,000,001–HKD2,500,000	–
HKD2,500,001–HKD3,000,000	1

Details of the remuneration of each Director for the year under review are set out in note 7 to the consolidated financial statements.

The Remuneration Committee also made recommendations to the Board on the terms of service contract or letter of appointment of each new executive Director and non-executive Directors appointed/redesignated during the year under review.

Nomination Committee

The Nomination Committee consists of one executive Director, namely Mr. Wang Shiguang (chairman) and two independent non-executive Directors, namely Mr. Ong King Keung and Mr. Chen Yong.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

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 met once 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 and to consider and recommend to the Board on the appointment of executive Director and non-executive Director.

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

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular 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 these meetings is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	2018 AGM
Mr. Yue Jingxing	8/9	N/A	1/1	N/A	1/1
Mr. Zhang Youyun	9/9	N/A	N/A	N/A	1/1
Mr. Lau Wai Leung, Alfred	8/9	N/A	N/A	N/A	1/1
Mr. Wang Shiguang	6/9	N/A	N/A	1/1	1/1
Mr. Ng Benjamin Jin-ping *(retired on May 25, 2018)*	3/4	N/A	N/A	N/A	0/1
Mr. Zhou, Francis Bingrong *(appointed on August 21, 2018)*	1/4	N/A	N/A	N/A	N/A
Mr. Cheung Fan *(appointed on September 7, 2018)*	2/2	N/A	N/A	N/A	N/A
Mr. Ong King Keung	9/9	2/2	1/1	1/1	1/1
Mr. Chen Yong	9/9	2/2	1/1	1/1	1/1
Mr. Pan Song	9/9	2/2	N/A	N/A	0/1

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 auditors. 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 for providing the internal audit function. The professional firm conducts internal audit on the Group every six months (who reports to the Audit Committee) with a view to facilitating adequacy of resources and quality of 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 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 50 to 58.

AUDITOR REMUNERATION

The remuneration paid to the external auditor of the Company, KPMG, 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	
— audit services on 2018 annual financial statements	2,588,000
— review of interim results for the six months ended June 30, 2018	350,000
Non-audit services	–
	2,938,000

COMPANY SECRETARY

Mr. Leung Ka Lok, the Chief Financial Officer of the Company, has been appointed as the company secretary of the Company since May, 2016.

During the year under review, Mr. Leung 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 7/F., The Wellington, 198 Wellington Street, Central, 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: 7/F., The Wellington, 198 Wellington Street, Central, Hong Kong
(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 2018 AGM held on May 25, 2018, 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.

Independent Auditor's Report

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 59 to 146, which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 December 31, 2018 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policy note 1(w).

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises • income from the sale of power-line-communication ("PLC") products, • 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, • income from the sale of production safety products, • income from sale of software license, and • income from the provision of software post-contract support services. 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. 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 audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over revenue recognition; • inspecting customer contracts, on a sample basis, to identify terms and conditions relating to the customers' acceptance of the goods and services provided by the Group and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions, on a sample basis, recorded at the point in time during the current year with invoices, sales contracts and delivery documents with the customers' acknowledgement of acceptance of the goods and services provided by the Group to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; • comparing, on a sample basis, revenue transactions recorded at the point in time before and after the reporting date with underlying delivery documents with the customers' acknowledgement of acceptance of the goods and services provided by the Group and other relevant documentation to determine whether the related revenue had been recognised in the appropriate financial period; • comparing, on a sample basis, revenue recorded over time during the current year with relevant contract terms to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; and • inspecting underlying documentation for manual journal entries relating to revenue raised during the year which met specific risk-based criteria.

Loss allowance for trade receivables

Refer to notes 17 and 28(a) to the consolidated financial statements and the accounting policy note 1(m) and 1(o).

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2018, the Group's gross trade receivables amounted to RMB 242,143,000, against which loss allowance of RMB 35,718,000 was recorded. Management measures loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates for each category of receivables. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions and customer-specific conditions, all of which involve a significant degree of management judgement. We identified the loss allowance for trade receivables as a key audit matter because determining the level of loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding on the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • re-performing the calculation of loss allowance as at December 31, 2018 based on the Group's credit loss allowance policies; and • inspecting, on a sample basis, cash receipts from debtors subsequent to the reporting date relating to trade receivable balances as at December 31, 2018.

Capitalisation of development costs

Refer to note 11 to the consolidated financial statements and the accounting policy note 1(k).

The Key Audit Matter	How the matter was addressed in our audit
The Group continued to capitalise certain costs incurred in the development of its broadband PLC technology within intangible assets during the year ended December 31, 2018 when they continue to meet the criteria for capitalisation as set out in the prevailing accounting standards. Significant management judgement is required to be exercised in determining whether technical and commercial feasibility has been achieved for the broadband PLC technology project and in identifying the relevant costs to be capitalised. As at December 31, 2018, the carrying amount of capitalised development costs was RMB9,323,000. Amortisation of such capitalised development costs had not commenced as at December 31, 2018 as the development project was still in progress at that date. We identified capitalisation of development costs as a key audit matter because of the significant level of management judgement involved in determining whether the criteria for capitalisation of development costs are met and in identifying the relevant costs eligible for capitalisation. Also, the successful commercialisation of the broadband PLC development project is critical to the Group's future prospect in the AMR business.	Our audit procedures to assess the capitalisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to the identification, capturing and capitalisation of eligible development costs; • evaluating management's latest assessment of the technical and commercial feasibility of the development project by discussing with the Group's internal specialists the commercial applications of the technology and reviewing the related internal technical test report as well as latest project update and outlook report approved by the Board; • comparing actual progress and milestones achieved of the development project against initial plan and discussing with management if impairment indicators have occurred if the actual progress has significantly fallen behind plan; assessing if management has a reasonable basis to conclude that development project remains probable of being commercially successful; and • comparing development costs capitalised during the year, on a sample basis, with relevant underlying documentation, such as timesheet data for internal specialists, to assess whether these items met the criteria for capitalisation of development costs with reference to the requirements of the prevailing accounting standards.

Accounting for business combinations

Refer to note 30 to the consolidated financial statements and the accounting policy note 1(d).

The Key Audit Matter	How the matter was addressed in our audit
On April 30, 2018, the Group acquired 100% interest in North Mountain Information Technology Company Limited ("NM Technology"). The purchase consideration comprised of fixed cash consideration of RMB12 million and contingent consideration to be settled in the form of cash and newly issued shares of the Company up to a maximum of RMB69 million if NM Technology achieves performance target in terms of adjusted net profit for the year ended December 31, 2018. On August 15, 2018, the Group acquired 100% interest in Green Harmony Limited ("Green Harmony"). The purchase consideration comprised of fixed cash consideration of HKD100 million and contingent consideration to be settled in the form of cash up to a maximum of HKD400 million if Green Harmony achieves performance target in terms of adjusted net profit for the year ended December 31, 2018. Management engaged independent valuation firms to determine the fair values of the acquired identifiable intangible assets and the contingent purchase considerations for the above acquisitions. We identified the accounting for the business combinations as a key audit matter because of the complexity and significant degree of management judgment involved in the following areas: • the identification and valuation of identifiable intangible assets of the acquired businesses at the acquisition date; and • the determination of the fair value of contingent purchase considerations at the acquisition date.	Our audit procedures to assess the accounting for the business combinations included the following: • inspecting the relevant equity sale and purchase agreements and evaluating management's accounting treatment for the business combinations with reference to the terms set out in the sale and purchase agreements and the prevailing accounting standards; • reading the reports of external valuation firms on which management's estimate of the fair values of the identifiable intangible assets acquired and the contingent purchase considerations were based; • assessing the external valuation firms' qualifications, experience, expertise and considering their objectivity and independence; • engaging our internal valuation specialists to assist us in assessing the methodology adopted to identify both the assets and liabilities acquired and assessing the nature of the intangible assets identified with reference to the requirements of the prevailing accounting standards; • engaging our internal valuation specialists to assist us in assessing the valuation model applied in the contingent purchase consideration calculation by the independent external valuation firm with reference to terms in the signed sale and purchase agreement; • engaging our internal valuation specialists to assist us in assessing the key assumptions, including revenue growth rate, gross profit margin and discount rate, adopted in determining the fair values of identifiable intangible assets and contingent purchase consideration by comparing forecast revenue levels with historical revenue levels and by considering external market data and our past experience of similar transactions; and • assessing the disclosures in the consolidated financial statements in respect of the business combinations with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of goodwill

Refer to note 12 to the consolidated financial statements and the accounting policy notes 1(g) and 1(m).

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2018, goodwill of RMB177,211,000 and RMB37,936,000 arose from the acquisition of Green Harmony in August 2018 and the acquisition of NM Technology in April 2018, respectively. These goodwill are allocated to the SMIA Cash Generating Units ("CGU") and AMR CGU respectively. Management engaged an independent valuation firm to perform an annual impairment assessment of the goodwill and compared the carrying value of the CGUs containing the goodwill with its recoverable amount by using a discounted cash flow forecast to determine if any impairment is required. The assessment of the recoverable amount of goodwill involves significant management estimation and judgment, in particular in determining the key assumptions adopted in the cash flow forecasts, which include future revenue growth rates, future profit margins and the discount rates applied. We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because of the inherent uncertainty involved in forecasting and discounting future cash flows which involves the exercise of significant management judgment and could be subject to management bias.	Our audit procedures to assess impairment of goodwill included the following: • reading the reports of external valuation firm on which management's impairment assessment of the goodwill is based on; • assessing the external valuation firm's qualifications, experience, expertise and considering its objectivity and independence; • assessing management's identification of the CGUs, the allocation of assets and liabilities to the identified CGUs and the valuation methodology with reference to the requirements of the prevailing accounting standards; • engaging our internal valuation specialists to assist us in evaluating the discount rates adopted by management in the preparation of the discounted cash flow forecasts by benchmarking against those of comparable companies in the same industry; • assessing, with the assistance of our internal valuation specialists, the key assumptions adopted in the discounted cash flow forecast by comparing the most significant inputs including future revenue growth rates and future profit margins with the latest financial budgets approved by management, historical performance of the CGUs, future business plans and observable data for comparable companies; • performing sensitivity analysis of the key assumptions adopted in the discounted cash flow forecasts, including the discount rates, future revenue growth rates and future profit margins, and considering the resulting impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias; and • assessing the disclosures in the consolidated financial statements in respect of assessing impairment of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 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 this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE 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 Hong Kong 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 directors are assisted by the Audit Committee 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. This report is made 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 scepticism 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.

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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 Alex M.K. Shum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong
March 28, 2019

Consolidated Statement of Profit or Loss

for the year ended December 31, 2018 (Expressed in Renminbi)

	NOTE	2018 RMB'000	2017 (Note) RMB'000
Revenue	3	**475,793**	317,333
Cost of sales		**(316,259)**	(171,606)
Gross profit		**159,534**	145,727
Other income	4	**11,215**	16,314
Sales and marketing expenses		**(52,790)**	(55,171)
General and administrative expenses		**(84,163)**	(56,350)
Research and development expenses	5(d)	**(36,954)**	(47,202)
(Loss)/profit from operations		**(3,158)**	3,318
Finance costs	5(a)	**(3,539)**	(276)
Share of loss of associate		**(110)**	(49)
Fair value gains on financial instruments at fair value	5(c)	**10,424**	–
Profit before taxation	5	**3,617**	2,993
Income tax credit	6	**578**	9,858
Profit for the year		**4,195**	12,851
Attributable to:			
— Equity shareholders of the Company		**4,204**	12,670
— Non-controlling interests		**(9)**	181
Profit for the year		**4,195**	12,851
Earnings/(loss) per share	9		
Basic (RMB cents)		**0.51**	1.73
Diluted (RMB cents)		**(1.72)**	1.73

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2018 (Expressed in Renminbi)

	2018 RMB'000	2017 (Note) RMB'000
Profit for the year	**4,195**	12,851
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China	**4,877**	(7,935)
Total comprehensive income for the year	**9,072**	4,916
Attributable to:		
— Equity shareholders of the Company	**9,081**	4,735
— Non-controlling interests	**(9)**	181
Total comprehensive income for the year	**9,072**	4,916

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2018 (Expressed in Renminbi)

	NOTE	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	10	**30,877**	33,509
Intangible assets	11	**215,363**	13,995
Goodwill	12	**215,147**	–
Interest in associate	14	**446**	556
Deferred tax assets	25(b)	**19,813**	7,236
Other non-current assets		**–**	11,823
		481,646	67,119
Current assets			
Inventories	15	**33,225**	72,366
Contract costs	16	**7,548**	–
Trade and other receivables	17	**259,253**	158,227
Restricted bank deposits		**148**	–
Financial investments at fair value through profit or loss	18	**10,000**	–
Cash and cash equivalents	19	**267,037**	184,643
		577,211	415,236
Current liabilities			
Trade and other payables	20	**124,006**	72,556
Contract liabilities	21	**23,700**	–
Acquisition consideration payables	22	**211,280**	–
Income tax payable	25(a)	**12,551**	6,806
		371,537	79,362
Net current assets		**205,674**	335,874
Total assets less current liabilities		**687,320**	402,993

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Statement of Financial Position *(continued)*

at December 31, 2018 (Expressed in Renminbi)

	NOTE	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Acquisition consideration payables	22	**105,255**	–
Convertible bonds	23	**120,502**	–
Deferred tax liabilities	25(b)	**54,043**	5,412
Deferred income	26	**6,734**	6,200
		286,534	11,612
Net assets		**400,786**	391,381
Capital and reserves			
Share capital	27	**71**	71
Reserves	27	**400,715**	391,127
Total equity attributable to equity shareholders of the Company		**400,786**	391,198
Non-controlling interests		**–**	183
Total equity		**400,786**	391,381

Approved and authorized for issue by the Board of Directors on March 28, 2019.

Yue Jingxing
Executive Director

Zhang Youyun
Executive Director

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2018 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 27(c)	Share premium RMB'000 Note 27(d)	Capital reserve RMB'000 Note 27(e)	PRC statutory reserves RMB'000 Note 27(f)	Exchange reserve RMB'000 Note 27(g)	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2017	1	154	131,102	16,720	15,281	57,449	220,707	2	220,709
Changes in equity for 2017:									
Profit for the year	–	–	–	–	–	12,670	12,670	181	12,851
Other comprehensive income	–	–	–	–	(7,935)	–	(7,935)	–	(7,935)
Total comprehensive income	–	–	–	–	(7,935)	12,670	4,735	181	4,916
Equity-settled share-based payments	–	–	203	–	–	–	203	–	203
Appropriation to reserves	–	–	–	1,061	–	(1,061)	–	–	–
Issue of ordinary shares under share option	1	1,321	(1,306)	–	–	–	16	–	16
Capitalization issue	51	(51)	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs	18	165,519	–	–	–	–	165,537	–	165,537
Balance at December 31, 2017	71	166,943	129,999	17,781	7,346	69,058	391,198	183	391,381

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*

for the year ended December 31, 2018 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 27(c)	Share premium RMB'000 Note 27(d)	Capital reserve RMB'000 Note 27(e)	PRC statutory reserves RMB'000 Note 27(f)	Exchange reserve RMB'000 Note 27(g)	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at December 31, 2017	**71**	**166,943**	**129,999**	**17,781**	**7,346**	**69,058**	**391,198**	**183**	**391,381**
Impact on initial application of HKFRS 9 (note 1(c))	**–**	**–**	**–**	**–**	**–**	**(1,690)**	**(1,690)**	**–**	**(1,690)**
Balance at January 1, 2018	**71**	**166,943**	**129,999**	**17,781**	**7,346**	**67,368**	**389,508**	**183**	**389,691**
Changes in equity for 2018:									
Profit for the year	**–**	**–**	**–**	**–**	**–**	**4,204**	**4,204**	**(9)**	**4,195**
Other comprehensive income	**–**	**–**	**–**	**–**	**4,877**	**–**	**4,877**	**–**	**4,877**
Total comprehensive income	**–**	**–**	**–**	**–**	**4,877**	**4,204**	**9,081**	**(9)**	**9,072**
Equity-settled share-based payments (note 24(d))	**–**	**–**	**2,022**	**–**	**–**	**–**	**2,022**	**–**	**2,022**
Appropriation to reserves	**–**	**–**	**–**	**4,054**	**–**	**(4,054)**	**–**	**–**	**–**
Issue of ordinary shares under share option plan (note 27(c))	**–**	**94**	**(93)**	**–**	**–**	**–**	**1**	**–**	**1**
Acquisition of non-controlling interest in a subsidiary (note 27(e))	**–**	**–**	**174**	**–**	**–**	**–**	**174**	**(174)**	**–**
Balance at December 31, 2018	**71**	**167,037**	**132,102**	**21,835**	**12,223**	**67,518**	**400,786**	**–**	**400,786**

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2018 (Expressed in Renminbi)

	NOTE	2018 RMB'000	2017 (Note) RMB'000
Operating activities:			
Cash generated from/(used in) operations	19(b)	**66,994**	(73,389)
Income tax paid	25(a)	**(3,045)**	(15,181)
Net cash generated from/(used in) operating activities		**63,949**	(88,570)
Investing activities:			
Payment for acquisition of subsidiaries, net of cash acquired	30	**(98,454)**	–
Payment for financial investment at fair value through profit or loss	18	**(10,000)**	–
Payment for purchase of property, plant and equipment and intangible assets		**(2,834)**	(18,103)
Expenditure on development project		**(2,036)**	(7,287)
Payment for acquisition deposits		**–**	(11,823)
Proceeds from disposal of property, plant and equipment		**–**	22
Interest received		**756**	553
Net cash used in investing activities		**(112,568)**	(36,638)

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

Consolidated Cash Flow Statement *(continued)*

for the year ended December 31, 2018 (Expressed in Renminbi)

	NOTE	2018 RMB'000	2017 (Note) RMB'000
Financing activities:			
Net proceeds from the issuance of convertible bonds	19(c)	**127,841**	–
Proceeds from interest-bearing loan		**–**	13,000
Repayment of interest-bearing loan		**–**	(13,000)
Payment of deposit for interest-bearing loan		**–**	(8,124)
Redemption of deposit for interest-bearing loan		**–**	8,124
Interest paid		**–**	(276)
Cash received from investors for share subscription		**1**	16
Net proceeds from issuance of shares by initial public offering, net of issuance costs		**–**	165,537
Payment for other financing activities		**(1,318)**	–
Net cash generated from financing activities		**126,524**	165,277
Net increase in cash and cash equivalents		**77,905**	40,069
Effect of foreign exchange rate changes		**4,489**	(248)
Cash and cash equivalents at January 1	19(a)	**184,643**	144,822
Cash and cash equivalents at December 31	19(a)	**267,037**	184,643

Note: The Group has initially adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 67 to 146 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). 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 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The consolidated financial statements for the year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in associate.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "**Functional Currency**"). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis except for financial investments at fair value through profit or loss ("**FVTPL**") (see note 1(h)), contingent consideration payables and convertible bonds (see note 1(s)).

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*

(iv) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The Group's financial statements have been impacted by HKFRS 9 in relation to measurement of credit loss and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 1(c)(i) for HKFRS 9 and note 1(c)(ii) for HKFRS 15.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and the related tax impact at January 1, 2018.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation *(Continued)*

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on financial assets measured at amortized cost	(2,015)
Related tax impact	325
Net decrease in retained earnings at January 1, 2018	(1,690)

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

a. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortized cost (including cash and cash equivalents, restricted bank deposits, and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(m)(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at December 31, 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at January 1, 2018.

	RMB'000
Loss allowance at December 31, 2017 under HKAS 39	5,144
Additional credit loss recognized at January 1, 2018 on trade and other receivables	2,015
Loss allowance at January 1, 2018 under HKFRS 9	7,159

b. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except that information relating to comparative period has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period. There was no change of classification of financial assets and liabilities due to adoption of HKFRS9.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

First adoption of HKFRS 15 for the current accounting period has no significant impact on the Group's results of operations and financial position.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognized at a point in time when the risks and rewards of ownership of the goods had passed to customers, and revenue arising from services was recognized when the relevant service is rendered without further performance obligations.

Under HKFRS 15, revenue is recognized when a customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognizes revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognizes revenue.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

b. *Warranty*

The Group previously made provisions under the warranties it gives on sales of its products taking into account the Group's recent claim experience, which was recognized as sales and marketing expenses.

Under HKFRS 15, if an entity provides a warranty with the sale of a product, then it assesses whether the warranty is a separate performance obligation. Only a warranty that provides a customer with a service in addition to assurance that the product complies with agreed specifications is a performance obligation.

According to the terms of the Group's sales agreements, customers do not have the option to purchase a warranty separately. The nature of the tasks that the entity promises to perform is necessary to assure the products sold to comply with agreed-upon specifications. The Group concludes that the warranty is not a separate performance obligation, therefore the adoption of HKFRS 15 will not materially affect how the Group recognizes revenue.

c. *Presentation of contract liabilities*

Under HKFRS 15, a receivable is recognized only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue (see note 1(w)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue. 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 (see note 1(p)).

To reflect these changes in presentation, the Group has made the following adjustment at January1, 2018, as a result of the adoption of HKFRS 15:

— "Receipts in advance" amounting to RMB5,226,000 as at January 1, 2018, which was mainly related to sales of goods and maintenance service previously included in trade and other payables is now presented as contract liabilities.

d. Disclosure of the estimated impact on the amounts reported in respect of the year ended December 31, 2018 as a result of the adoption of HKFRS 15 on January 1, 2018.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) HKFRS 15, *Revenue from contracts with customers* *(Continued)*

d. *(Continued)*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended December 31, 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognized under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) RMB'000	Hypothetical amounts under HKAS 18 (B) RMB'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at December 31, 2018 impacted by the adoption of HKFRS 15:			
Contract costs	**7,548**	**–**	**7,548**
Trade and other receivables	**259,253**	**266,801**	**(7,548)**
Total current assets	**577,211**	**577,211**	**–**
Trade and other payables	**124,006**	**147,706**	**(23,700)**
Contract liabilities	**23,700**	**–**	**23,700**
Total current liabilities	**371,537**	**371,537**	**–**
Net current assets	**205,674**	**205,674**	**–**
Total assets less current liabilities	**687,320**	**687,320**	**–**
Net assets	**400,786**	**400,786**	**–**
Total equity attributable to equity shareholders of the Company	**400,786**	**400,786**	**–**
Total equity	**400,786**	**400,786**	**–**

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(iii) Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*

This amendment provides guidance on the accounting for:

— the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

— share-based payment transactions with a net settlement feature for withholding tax obligations; and

— a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Group concludes the adoption of Amendments to HKFRS 2 does not have any material impact on the financial position and the financial result of the Group as all share options issued by the Group were equity-settled.

(iv) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Business combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 1 (m)(ii)). Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(h)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(f)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

In all cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(h)).

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value, plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(e). These investments are subsequently accounted for as follows, depending on their classification:

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity 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 (FVOCI) — 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 recognized 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 derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

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

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 FVOCI (non-recycling) such that subsequent changes in fair value are recognized 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 earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognized in profit or loss as other income.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in debt and equity securities *(Continued)*

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 1(m)(i) — policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments calculated using the effective interest method were recognized in profit or loss. Interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in note 1(w)(iv). Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognized or impaired (see note 1(m)(i) — policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(i) Derivative financial instruments

Derivative financial instruments are recognized at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	20 years
— Machinery and equipment	5–10 years
— Office and other equipment	3–5 years
— Motor vehicles	4–8 years
— Leasehold improvements	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(m)(ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)(ii)). Other development expenditure is recognized as an expense in the period in which it is incurred. Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

— Software	3–10 years
— Non-compete undertakings	5–7 years
— Customer relationships	3–10 years
— Unfulfilled contracts	2 years

Both the period and method of amortization are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from January 1, 2018

The Group recognizes a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortized cost (including cash and cash equivalents, restricted bank deposits and trade and other receivables).

Financial assets measured at fair value, including financial investments at fair value through profit or loss, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). For fixed-rate financial assets, trade and other receivables and contract assets, the expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs 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 and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from January 1, 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). 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.

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

— failure to make payments of principal or interest on their contractually due dates;

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

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

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(A) Policy applicable from January 1, 2018 (Continued)

Basis of calculation of interest income *(Continued)*

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to January 1, 2018

Prior to January 1, 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVTPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognized only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

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

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

(B) Policy applicable prior to January 1, 2018 (Continued)

For trade and other receivables and other financial assets carried at amortized cost, If any such evidence existed, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognized to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

When the recovery of a trade debtor or other financial assets carried at amortized cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognized in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— goodwill; and

— investments in subsidiaries.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Inventories and contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(ii) Contract costs

Contract costs are the costs to fulfil a contract with a customer which are not capitalized as inventories (see note 1(n)(i)).

Costs to fulfil a contract are capitalized 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 (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalized as inventory are expensed as incurred.

Capitalized contract costs are stated at cost less accumulated amortization and impairment losses. Impairment losses are recognized 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 recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss when the revenue to which the asset relates is recognized. The accounting policy for revenue recognition is set out in note 1(w).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other receivables

A receivable is recognized 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.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see note 1(m)(i)).

(p) Contract liabilities

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see note 1(w)).

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.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are accessed for expected credit losses (ECL) in accordance with the policy set out in note 1(m)(i).

(r) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) 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. A call option held by the Group is closely related to the host debt contract as the option's exercise price is approximately equal on each exercise date to the amortized cost of the host debt instrument.

The Group has designated the convertible bonds with conversion option held by the bond holders and call option held by the Group 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 recognized directly in profit or loss in the period in which they arise.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan obligations

Contributions to PRC local retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognized as an expense in profit or loss as incurred.

The Group has made contributions to a mandatory provident fund scheme ("MPF" scheme") in the Hong Kong Special Administrative Region for employees in Hong Kong. The Group's contributions to the MPF scheme are expensed as incurred.

(iii) Share-based payments

The fair value of share options granted is recognized as expenses with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior year is charged/credited to the profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is included in the amount recognized in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax

Income tax for the year or period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(v) Provisions and contingent liabilities

Provisions are recognized when the Group has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognized 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognized at a point in time when the customer takes possession of and accepts the products.

Revenue from sales of goods was recognized on a similar basis in the comparative period under HKAS 18.

(ii) Maintenance service income

Revenue arising from maintenance services is recognized at a point in time when customer obtains control of the distinct service.

Revenue arising from services was recognized on a similar basis in the comparative period under HKAS 18.

(iii) Software licenses and post-contract customer support services

Revenue from software licenses is recognized at the point in time when the software is made available to the customer. In cases where we allocate revenue to post-contract customer support, primarily because the support is provided at no additional charge, revenue is recognized as the support is provided, which is generally ratably over the license of the related software.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Government grants

Government grants are recognized in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and consequently are recognized in profit or loss on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognized in profit or loss.

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 recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized in respect of deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Loss allowance for credit losses

The Group assesses for impairment individually and recognizes lifetime expected credit losses ("**ECLs**") for trade and other receivables based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. The amount of the impairment loss based on ECL model is measured as difference between the 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 and using probability weighted estimation. 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.

The assessment of the correlation between historical default rates, forecast general economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The Group's historical credit loss experience and forecast of general economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in notes 17 and 28(a).

(ii) Warranty provisions

As explained in note 20(b), 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty (Continued)

(iii) Net realizable value of inventories

As described in note 1(n), net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realizable value.

(iv) Fair value of convertible bonds

The fair value of convertibles bonds that are not traded in an active market is determined by using valuation techniques with estimates including expected volatility of share price. Details of the judgement and assumptions involved have been disclosed in note 23. Changes in assumptions and estimates could materially affect the fair value of the financial instruments and as a result affect the Group's financial position and results.

(v) Fair value of contingent acquisition consideration payables

The Group's business combinations involve performance-based contingent considerations. The Group recognizes contingent considerations at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated financial performance of the acquired subsidiaries for the relevant financial period. Changes to assumptions and estimates of the acquired subsidiaries' financial performance can significantly affect the amounts of contingent consideration to be settled. Contingent considerations shall be re-measured at their fair value resulting from events or factors that emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated statement of profit and loss.

(vi) Impairment of non-current assets

As described in note 1(m)(ii), the carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. Management determines the impairment loss on non-current assets other than goodwill if circumstances indicate that the carrying value of an asset may not be recoverable. Goodwill is tested annually for impairment. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and the amount of operating costs.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

(i) Disaggregation of revenue

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

	2018 RMB'000	2017 RMB'000 (Note)
Revenue from contracts with customers within the scope of HKFRS 15 and recognized at a point in time		
Disaggregated by major products of service lines		
AMR and other business		
— PLC Integrated circuits ("**ICs**")	**52,797**	77,309
— PLC Modules	**137,716**	145,000
— Collectors	**82,635**	8,486
— Other products	**40,955**	54,458
— AMR maintenance services	**33,307**	32,080
Sub-total of AMR and other business	**347,410**	317,333
SMIA business		
— Software license	**89,282**	–
— Production safety products	**36,658**	–
Sub-total of SMIA business	**125,940**	–
Revenue from contracts with customers within the scope of HKFRS 15 and recognized over time		
Disaggregated by major products of service lines		
SMIA business		
— Post-contract customer support service	**2,443**	–
Sub-total of SMIA business	**2,443**	–
Total	**475,793**	317,333

Note: The Group has initially adopted HKFRS 15 on January 1, 2018 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(i) Disaggregation of revenue *(Continued)*

The Group had transactions with one individual customer the aggregate amount of which exceeded 10% of the Group's revenue in 2018 (2017: one). Revenue from this customer in 2018 amounted to approximately RMB91,059,000. Revenue from another customer in 2017 amounted to approximately RMB51,695,000. Details of concentrations of credit risk arising from these customers are set out in note 28(a).

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

As at December 31, 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contract is RMB113,416,000. This amount represents revenue expected to be recognized in the future from sales contract of software license and post-contract customer support service entered into by the customers with the Group. The Group will recognize the expected revenue in future when the software is made available to the customers or, in the case of the post-contract customer support service, when the service is rendered monthly to the customers, which is expected to occur over the next 1 to 5 years.

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

(b) Segment reporting

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

The Group presented two reportable segments, namely AMR business and Smart energy management business, in the consolidated financial statements for the year ended December 31, 2017.

During the current year and as a result of business acquisitions, the Group changed the format of internal financial reporting to the Group's most senior executive management and the two reportable segments mentioned above were aggregated and presented as one single segment. Research and development expenses, which were previously not allocated to the above mentioned segments, are now allocated to the newly defined reportable segments. Management considered such a change provides more useful information about the new management structure and the impact of acquisition of Green Harmony Limited, which is engaged in the sale of software license, production safety products as well as the provision of software post-contract customer support services.

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

- AMR and other business: this segment includes design, development and sale of power-line communication products, energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, etc. and providing maintenance services in connection with the deployment and upgrading of AMR systems by power grid companies in the PRC.

- SMIA business: this segment includes sales of software license, production safety products as well as the provision of software post-contract customer support services in connection with the smart manufacturing and industrial automation system applied in the petroleum and petrochemicals industry.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended December 31, 2018 and 2017 is set out as below:

	Year ended December 31, 2018		
	AMR and other business	**SMIA business**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Reportable segment revenue	**347,410**	**128,383**	**475,793**
Reportable segment cost of sales	**(239,372)**	**(76,887)**	**(316,259)**
Reportable segment sales and marketing expenses	**(52,044)**	**(746)**	**(52,790)**
Reportable segment research and development expenses	**(34,667)**	**(2,287)**	**(36,954)**
Reportable segment profit	**21,327**	**48,463**	**69,790**

	Year ended December 31, 2017 (restated)		
	AMR and other business	SMIA business	Total
	RMB'000	RMB'000	RMB'000
Reportable segment revenue	317,333	–	317,333
Reportable segment cost of sales	(171,606)	–	(171,606)
Reportable segment sales and marketing expenses	(55,171)	–	(55,171)
Reportable segment research and development expenses	(47,202)	–	(47,202)
Reportable segment profit	43,354	–	43,354

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Reportable segment profit	**69,790**	43,354
Other income	**11,215**	16,314
General and administrative expenses	**(84,163)**	(56,350)
Finance costs	**(3,539)**	(276)
Share of loss of associate	**(110)**	(49)
Fair value gains on financial instruments at fair value	**10,424**	–
Profit before taxation	**3,617**	2,993

(iii) Information about geographical area

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets. For the years ended December 31, 2018 and 2017, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were located in the PRC.

4 OTHER INCOME

	2018 RMB'000	2017 RMB'000
Interest income from bank deposits	**756**	553
Government grants		
— Unconditional subsidies (note (a))	**10,515**	11,601
— Conditional subsidies (note 26)	**2,466**	1,616
Net exchange (loss)/gain	**(2,676)**	2,703
Others	**154**	(159)
	11,215	16,314

(a) Government grants

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

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2018 RMB'000	2017 RMB'000
Interest expense on promissory notes	**250**	–
Issuance costs for convertible bonds (note 19(c))	**3,289**	–
Interest expense on interest-bearing loan	**–**	276
	3,539	276

(b) Staff costs

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	**55,515**	57,954
Contributions to defined contribution retirement plans (i)	**4,353**	4,597
Equity-settled share-based payment expenses	**2,022**	203
	61,890	62,754

(i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also operates a MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at certain percentage of the employees' relevant income. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

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

	2018 RMB'000	2017 RMB'000
Change in fair value of contingent share consideration (note 30(a))	**(8,241)**	–
Change in fair value of contingent consideration notes payable (note 30(b))	**8,495**	–
Change in fair value of convertible bonds (note 23)	**(10,678)**	–
	(10,424)	–

5 PROFIT BEFORE TAXATION *(Continued)*

(d) Other items

	2018 RMB'000	2017 RMB'000
Cost of inventories (i)	**258,889**	172,934
Cost of software license sold	**56,292**	–
Cost of post-contract customer support service	**1,737**	–
Research and development expenses (ii)	**36,954**	47,202
Depreciation and amortization	**27,796**	7,076
Operating lease charges	**9,627**	8,245
Product warranty costs (note 20(b))	**2,063**	2,848
Professional fees	**7,084**	14,548
Impairment losses of trade receivables (note 28(a))	**17,322**	1,702
Listing expenses	**–**	12,916
Auditors' remuneration	**2,938**	2,052

(i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in notes 5(b) and 5(d) for each of these types of expenses.

	2018 RMB'000	2017 RMB'000
Staff costs	**3,959**	5,356
Depreciation and amortization	**1,984**	2,109
Operating lease charges	**628**	1,157

(ii) Research and development expenses include the following amounts, which are also included in the respective total amounts disclosed separately above or in notes 5(b) and 5(d) for each of these types of expenses, and cost of inventories as disclosed in note 15(b), respectively.

	2018 RMB'000	2017 RMB'000
Staff costs	**20,742**	23,876
Professional fees	**7,084**	14,548
Depreciation and amortization	**1,684**	1,725
Operating lease charges	**3,077**	2,303
Cost of inventories	**659**	1,328

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

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

	2018 RMB'000	2017 RMB'000
Current tax:		
Provision for current income tax for the year (note 25(a))	**14,891**	3,083
Under-provision in prior years (note 25(a))	**175**	610
Reversal of provision for permanent establishment risk (note 25(a))	**(1,400)**	(4,312)
Deferred tax:		
Origination and reversal of temporary differences (note 25(b))	**(14,244)**	(9,239)
	(578)	(9,858)

(b) Reconciliation between actual income tax credit and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**3,617**	2,993
Notional tax expense on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	**670**	2,618
Tax effect of preferential tax rate (i)	**933**	(793)
Tax effect of non-deductible expenses	**471**	415
Additional deduction for qualified research and development costs (ii)	**(3,143)**	(3,112)
Under-provision in prior years	**175**	610
Tax effect of tax losses not recognized (iii)	**6,387**	265
Tax effect of other temporary differences not recognized (iii)	**3,112**	–
Effect on deferred tax balance resulting from a change in tax rate (i)	**(6,071)**	–
Withholding tax on distributable profits	**(1,712)**	(5,549)
Reversal of provision for permanent establishment tax risk (iv)	**(1,400)**	(4,312)
Actual income tax credit	**(578)**	(9,858)

6 INCOME TAX CREDIT IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

(b) Reconciliation between actual income tax credit and accounting profit at applicable tax rates: *(Continued)*

(i) 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.

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% of the estimated assessable profits. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

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 WFOE**"), a PRC subsidiary of the Group, is entitled to the preferential tax rate of 15% from years 2016 to 2018, 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 not renewed the qualification of High and New Technology Enterprise as at December 31, 2018, the tax rate used to recognize deferred tax assets and liabilities expected to be utilised after the year 2018 was changed to 25% as at December 31, 2018.

(ii) 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 2018 (2017: 50%).

(iii) Based on management's assessment of probability on the future taxable profits subsequent to the date of each reporting period, no deferred tax assets had been recognized for tax losses and other deductible temporary differences of certain loss-making PRC entities.

(iv) The corporate income tax provision related to PRC permanent establishment tax risk arising in year 2013 was reversed as at December 31, 2018 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 1,400,000 was released in the year ended December 31, 2018.

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended December 31, 2018

	Note	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments (Note (i)) RMB'000	Total RMB'000
Executive directors							
Mr. Yue Jingxing		103	1,468	–	–	1	1,572
Mr. Zhang Youyun		103	550	–	34	1	688
Mr. Zhou, Francis Bingrong	(ii)	484	–	–	–	–	484
Non-executive directors							
Mr. Wang Shiguang	(iii)	103	1,098	210	30	–	1,441
Mr. Cheung Fan	(v)	34	–	–	–	–	34
Mr. Lau Wai Leung, Alfred		60	–	–	–	–	60
Mr. Ng Benjamin Jin-ping	(iv)	–	–	–	–	–	–
Independent non-executive directors							
Mr. Ong King Keung		207	–	–	–	–	207
Mr. Chen Yong		207	–	–	–	–	207
Mr. Pan Song		207	–	–	–	–	207
		1,508	3,116	210	64	2	4,900

7 DIRECTORS' REMUNERATION *(Continued)*

Year ended December 31, 2017

	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments (Note i) RMB'000	Total RMB'000
Executive directors						
Mr. Yue Jingxing	59	1,440	26	15	19	1,559
Mr. Wang Shiguang	59	1,062	210	28	–	1,359
Mr. Zhang Youyun	59	522	51	34	40	706
Non-executive directors						
Mr. Ng Benjamin Jin-ping	–	–	–	–	–	–
Mr. Lau Wai Leung, Alfred	–	–	–	–	–	–
Independent non-executive directors						
Mr. Ong King Keung	118	–	–	–	–	118
Mr. Chen Yong	118	–	–	–	–	118
Mr. Pan Song	118	–	–	–	–	118
	531	3,024	287	77	59	3,978

Notes:

(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(t)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to testing.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 24.

(ii) On August 21, 2018, Mr. Zhou, Francis Bingrong was appointed as an executive director.

(iii) Mr. Wang Shiguang was an executive director during year 2017 and the period from January 1, 2018 to May 24, 2018. On May 25, 2018, Mr. Wang Shiguang was re-designated as a non-executive director. The remuneration of Mr. Wang Shiguang represented his capacity as both executive director and non-executive director of the Company during the year ended December 31, 2018.

(iv) Mr. Ng Benjamin Jin-ping retired as a non-executive director and did not offer himself for re-election.

(v) On September 7, 2018, Mr. Cheung Fan was appointed as a non-executive director.

No directors of the Group waived or agreed to waive any emoluments during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**3,148**	3,321
Discretionary bonuses	**490**	858
Retirement scheme contributions	**46**	60
Equity-settled share-based payments	**762**	8
	4,446	4,247

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	2018	2017
HKD 500,001–HKD1,000,000	**1**	–
HKD1,000,001–HKD1,500,000	**–**	1
HKD1,500,001–HKD2,000,000	**1**	1
HKD2,000,001–HKD2,500,000	**–**	1
HKD2,500,001–HKD3,000,000	**1**	–

(Expressed in Renminbi unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB4,204,000 (2017: RMB12,670,000) and the weighted average of 823,461,933 ordinary shares (2017: 731,426,497 shares after adjusting capitalization issue) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2018	2017
Shares in issue on January 1	**810,877,303**	18,128,214
Effect of equity-settled share options exercised on January 26, 2017	**–**	200,000
Effect of capitalization issue on June 9, 2017 (note)	**–**	581,671,786
Effect of vested equity-settled share options	**12,216,440**	13,289,511
Effect of shares issued by initial public offering on June 9, 2017	**–**	112,876,712
Effect of shares issued under exercise of over-allotment option on June 23, 2017	**–**	5,260,274
Effect of equity-settled share options exercised on July 25, 2018	**368,190**	–
Weighted average number of ordinary shares	**823,461,933**	731,426,497

Note: The number of ordinary shares outstanding before the capitalization issue was adjusted for the proportionate change in the number of ordinary shares outstanding as if the capitalization issue had occurred at the beginning of the earliest period presented.

9 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB14,715,000 (2017: profit of RMB12,670,000) and the weighted average of 857,716,637 shares for 2018 (2017: 734,312,097 shares after adjusting capitalization issue), calculated as follows:

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

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity shareholders (basic)	**4,204**	12,670
After tax effect of gain on fair value changes of convertible bonds (note 5(c))	**(10,678)**	–
After tax effect of gain on fair value changes of contingent share consideration (note 5(c))	**(8,241)**	–
(Loss)/profit attributable to ordinary equity shareholders (diluted)	**(14,715)**	12,670

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

	2018	2017
Weighted average number of ordinary shares at December 31 (basic)	**823,461,933**	731,426,497
Effect of conversion of convertible bonds	**23,178,082**	–
Effect of settlement of contingent share consideration	**11,076,622**	–
Effect of unvested equity-settled share options	**–**	2,885,600
Weighted average number of ordinary shares at December 31 (diluted)	**857,716,637**	734,312,097

For year 2018, the potential ordinary shares attributable to the Company's unvested equity-settled share options had anti-dilutive effect as the unvested equity-settled share options would result in a decrease in loss per share.

10 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	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2017	2,096	17,473	5,296	1,148	3,981	19,560	49,554
Additions	32	2,317	1,000	68	273	488	4,178
Transfer from construction in progress	18,627	1,155	266	–	–	(20,048)	–
Disposals	–	(11)	(48)	(2)	–	–	(61)
At December 31, 2017 and January 1, 2018	20,755	20,934	6,514	1,214	4,254	–	53,671
Additions	–	566	986	95	150	622	2,419
Acquisitions of subsidiaries (Note 30)	–	–	274	26	–	–	300
Disposals	–	(166)	(340)	(1)	(1,108)	–	(1,615)
Reclassification	–	31	(57)	26	–	–	–
At December 31, 2018	20,755	21,365	7,377	1,360	3,296	622	54,775
Accumulated depreciation:							
At January 1, 2017	(282)	(10,197)	(1,872)	(357)	(2,636)	–	(15,344)
Charge for the year	(836)	(2,161)	(1,150)	(151)	(559)	–	(4,857)
Written back on disposals	–	3	35	1	–	–	39
At December 31, 2017 and January 1, 2018	(1,118)	(12,355)	(2,987)	(507)	(3,195)	–	(20,162)
Charge for the year	(986)	(2,377)	(1,177)	(159)	(484)	–	(5,183)
Written back on disposals	–	109	230	–	1,108	–	1,447
Reclassification	–	(24)	44	(20)	–	–	–
At December 31, 2018	(2,104)	(14,647)	(3,890)	(686)	(2,571)	–	(23,898)
Net book value:							
At December 31, 2018	18,651	6,718	3,487	674	725	622	30,877
At December 31, 2017	19,637	8,579	3,527	707	1,059	–	33,509

11 INTANGIBLE ASSETS

	Software RMB'000	Capitalized development costs RMB'000	Customer relationships RMB'000	Non-compete undertakings RMB'000	Unfulfilled contracts RMB'000	Total RMB'000
Cost:						
At January 1, 2017	10,023	–	–	–	–	10,023
Additions	730	7,287	–	–	–	8,017
At December 31, 2017 and January 1, 2018	10,753	7,287	–	–	–	18,040
Acquisitions of subsidiaries (Note 30)	3	–	99,380	100,147	22,264	221,794
Additions	151	2,036	–	–	–	2,187
At December 31, 2018	10,907	9,323	99,380	100,147	22,264	242,021
Accumulated depreciation:						
At January 1, 2017	(1,826)	–	–	–	–	(1,826)
Charge for the year	(2,219)	–	–	–	–	(2,219)
At December 31, 2017 and January 1, 2018	(4,045)	–	–	–	–	(4,045)
Charge for the year	(2,190)	–	(5,875)	(5,949)	(8,599)	(22,613)
At December 31, 2018	(6,235)	–	(5,875)	(5,949)	(8,599)	(26,658)
Net book value:						
At December 31, 2018	4,672	9,323	93,505	94,198	13,665	215,363
At December 31, 2017	6,708	7,287	–	–	–	13,995

12 GOODWILL

	RMB'000
Cost:	
At January 1, 2017, December 31, 2017 and January 1, 2018	–
Goodwill arising from business combinations:	
— NM Technology (Note 30)	37,936
— Green Harmony (Note 30)	177,211
At December 31, 2018	215,147

Impairment tests for cash-generating units containing goodwill

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

	2018 RMB'000	2017 RMB'000
AMR and other business	**37,936**	–
SMIA business	**177,211**	–
	215,147	–

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

(Expressed in Renminbi unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of companies	Place of incorporation and business	Registered capital/ issued share capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Risecomm Co. Ltd.	The Cayman Islands	18,128,214 shares of USD0.001 each	100%	100%	–	Dormant
Harvest Year Global Limited	Seychelles	1 share of USD1 each	100%	100%	–	Investment holding
Prime Key Holdings Limited	Seychelles	1 share of USD1 each	100%	100%	–	Investment holding
Risecomm (HK) Technology Co. Limited	Hong Kong	1 share of HKD1 each	100%	–	100%	Trading and research and development
Risecomm (HK) Holding Co. Limited	Hong Kong	1 share of HKD1 each	100%	–	100%	Investment holding
Risecomm Microelectronics (Shenzhen) Co., Ltd.* (瑞斯康微電子(深圳)有限公司)	The PRC	USD17,500,000	100%	–	100%	Manufacturing and sales of AMR products
Beijing Risecomm Communication Technology Company Limited* (北京瑞斯康通信技術有限公司)	The PRC	RMB3,000,000	100%	–	100%	Sales and marketing
Wuxi Risecomm Communication Technology Company Limited* (無錫瑞斯康通信技術有限公司)	The PRC	RMB3,100,000	100%	–	100%	Research and development
Shenzhen Risecomm Software Technology Company Limited* (深圳市瑞斯康軟件技術有限公司)	The PRC	RMB2,000,000	100%	–	100%	Research and development
Changsha Risecomm Communication Technology Company Limited* (長沙瑞斯康通信技術有限公司)	The PRC	RMB1,000,000	100%	–	100%	Research and development

(Expressed in Renminbi unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

			Proportion of ownership interest			
Name of companies	Place of incorporation and business	Registered capital/ issued share capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
North Mountain Information Technology Company Limited	Hong Kong	HKD10,000	100%	–	100%	Investment holding
North Mountain Power Technology (Beijing) Co., Ltd* (北山網電電力技術（北京）有限公司)	The PRC	RMB1,000,000	100%	–	100%	Sales and marketing
Green Harmony Limited	Seychelles	1 share of USD1 each	100%	100%	–	Investment holding
Hongten Technology Limited	Hong Kong	10,000 shares of HKD 1 each	100%	–	100%	Investment holding
Beijing Hongteng Weitong Technology Co., Ltd*. (北京鴻騰偉通科技有限公司)	The PRC	RMB32,244,307.16	100%	–	100%	SMIA business
Beijing Jianxinchuangda Technology Co., Ltd* (北京鍵鑫創達科技有限公司)	The PRC	RMB2,000,000/–	100%	–	100%	SMIA business
Beijing Tongyong Chuangweishi Technology Development Co., Ltd* (北京通用創為實技術發展有限公司)	The PRC	RMB2,000,000/–	100%	–	100%	Dormant

* The official name of the company is in Chinese. The English translation of the company name is for reference only.

14 INTEREST IN ASSOCIATE

The following list contains only the particulars of the Group's associate, which is immaterial and accounted for using the equity method in the consolidated financial statements.

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of registered capital	Proportion of ownership interest-Group's effective interest	Principal activities
Risecomm (Beijing) Technology Company Limited.* 瑞北通（北京）科技有限公司	Incorporated	The PRC	RMB2,000,000	50%	Research and development

* The official name of the company is in Chinese. The English translation of the company name is for reference only.

15 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Raw materials	**16,925**	26,280
Work in progress	**3,418**	25,543
Finished goods	**26,897**	24,755
	47,240	76,578
Provision for diminution in value of inventories	**(14,015)**	(4,212)
	33,225	72,366

(b) The analysis of the amount of inventories recognized as expenses and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**250,396**	168,091
Write down of inventories	**7,834**	3,515
Cost of inventories directly recognized as research and development expenses	**659**	1,328
	258,889	172,934

16 CONTRACT COSTS

Contract costs capitalized as at 31 December 2018 relate to the the costs to fulfil a contract with a customer. Contract costs are recognized as part of "cost of sales" in the statement of profit or loss in the period in which revenue is recognized.

The amount of capitalized costs recognized in profit or loss during the year was RMB1,737,000. The amount of capitalized contract costs is expected to be recovered within one year.

17 TRADE AND OTHER RECEIVABLES

	NOTE	2018 RMB'000	2017 RMB'000
Trade receivables, net of loss allowance	(i)	**206,425**	136,193
Bills receivable (note (b))		**15,342**	5,615
Total trade receivables		**221,767**	141,808
Prepayments		**27,735**	10,263
Income tax recoverable (note 25(a))		**85**	1,205
Other receivables		**9,666**	4,951
Trade and other receivables, net		**259,253**	158,227

Note:

(i) Upon the initial adoption of HKFRS 9, an opening adjustment as at January 1, 2018 was made to recognize additional ECLs on trade receivable (see note 1(c)).

(a) Ageing analysis

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

	2018 RMB'000	2017 RMB'000
Within 6 months	**156,901**	101,662
After 6 months but within 1 year	**28,814**	16,652
After 1 year	**56,428**	23,023
Trade receivables	**242,143**	141,337
Loss allowance	**(35,718)**	(5,144)
Trade receivables, net of loss allowance	**206,425**	136,193

Further details on the Group's credit policy and credit risk arising from trade receivables and bills receivable are set out in note 28(a).

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Bills receivable

Bills receivables represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group has experienced no credit losses on bills receivable. The Group from time to time endorses bills receivables to suppliers as part of the treasury management.

During the years ended December 31, 2018 and 2017, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognized these bills receivable and the payables to suppliers in their entirety. These derecognized bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills and had discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at December 31, 2018, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2,335,000 (2017: RMB3,450,000).

18 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 **RMB'000**	2017 RMB'000
Financial investments at fair value through profit or loss	**10,000**	–

Financial investments at fair value through profit or loss comprise the investments in wealth management products sold by banks in the PRC. The wealth management products with floating financial return which is determined by the underlying USD3M-LIBOR.

The wealth management products had matured in February 2019.

In the opinion of the directors of the Group, the fair value of the wealth management products at December 31, 2018 approximated their principal amounts due to short-term maturity of these financial investments.

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash at banks and on hand	**267,037**	184,643

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	NOTE	2018 RMB'000	2017 RMB'000
Profit before taxation		**3,617**	2,993
Adjustments for:			
Depreciation and amortization	5(d)	**27,796**	7,076
Finance costs	5(a)	**3,539**	276
Impairment losses of trade receivables	5(d)	**17,322**	1,702
Write down of inventories	15(b)	**7,834**	3,515
Interest income	4	**(756)**	(553)
Fair value gains on financial instruments at fair value	5(c)	**(10,424)**	–
Loss on disposal of property, plant and equipment		**168**	–
Equity-settled share-based payment expenses	5(b)	**2,022**	203
Share of loss of associate		**110**	49
Changes in working capital:			
Decrease/(increase) in inventories		**63,702**	(28,434)
Increase in contract costs		**(6,868)**	–
Increase in trade and other receivables		**(50,292)**	(42,417)
Increase in restricted bank deposits		**(148)**	–
Increase/(decrease) in trade and other payables		**7,010**	(16,183)
Increase in contract liabilities		**1,828**	–
Increase/(decrease) in deferred income		**534**	(1,616)
Cash generated from/(used in) operations		**66,994**	(73,389)

19 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Reconciliation of liabilities arising from financial activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Convertible bonds RMB'000
Balance at January 1, 2018	–
Changes from financing cash flows	
— Inflow from financing activities	127,841
Total changes from financing cash flows	127,841
Exchange adjustments	50
Issuance costs on convertible bonds (Note 5(a))	3,289
Changes in fair value (Note 5(c))	(10,678)
Balance at December 31, 2018	120,502

	Interest - bearing loan RMB'000
Balance at January 1, 2017	–
Changes from financing cash flows	
— Inflow from financing activities	13,000
— Outflow from financing activities	(13,000)
Balance at December 31, 2017	–

20 TRADE AND OTHER PAYABLES

	December 31, 2018 RMB'000	January 1, 2018 RMB'000	December 31, 2017 RMB'000
Trade payables (note (a))	**91,794**	44,708	44,708
Receipts in advance (note 1(c)(ii))	**–**	–	5,226
Contract liabilities (note 1(c)(ii))	**–**	5,226	–
Product warranty provision (note (b))	**3,474**	4,644	4,644
Other payables and accruals	**28,738**	17,978	17,978
Trade and other payables	**124,006**	72,556	72,556

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

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**70,249**	42,949
After 3 months but within 6 months	**8,825**	1,344
After 6 months but within 1 year	**7,798**	60
Over 1 year but within 2 years	**4,922**	355
	91,794	44,708

(b) Product warranty provision

	2018 RMB'000	2017 RMB'000
At January 1, 2018	**4,644**	5,295
Additional provisions made	**2,063**	2,848
Provisions utilised	**(3,233)**	(3,499)
At December 31, 2018	**3,474**	4,644

21 CONTRACT LIABILITIES

Contract liabilities	2018 RMB'000	2017 RMB'000
Made-to-order manufacturing arrangements		
— Billings in advance of performance(ii)	**14,678**	–
Deferred post-contract customer support income (iii)	**9,022**	–
	23,700	–

(i) Upon the initial adoption of HKFRS 15, these amounts were reclassified from "Trade and other payables" (note 20) to contract liabilities (see note 1(c)(ii)).

(ii) 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 recognized 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.

(iii) Deferred post-contract customer support income primarily consists of unamortized revenue from sales of software license, where there is still an implied service performance obligation to be provided by the Group over time.

Movements in contract liabilities

	2018 RMB'000	2017 RMB'000
Balance at January 1	**5,226**	–
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(5,226)**	–
Increase in contract liabilities as a result of billing in advance of manufacturing activities	**14,678**	–
Increase in contract liabilities as a result of billing in advance of post-contract support activities	**9,022**	–
Balance at December 31	**23,700**	–

22 ACQUISITION CONSIDERATION PAYABLES

	2018 RMB'000
Acquisition of NM Technology (note 30(a))	
— Promissory note payable	**8,875**
— Contingent share consideration payable	**23,325**
Acquisition of Green Harmony (note 30(b))	
— Contingent consideration notes payable	**284,335**
	316,535
Representing:	
— Amounts payable within 1 year	**211,280**
— Amounts payable after 1 year but within 2 years	**105,255**
	316,535

23 CONVERTIBLE BONDS

	2018 RMB'000
As at January 1, 2018	–
Fair value of convertible bonds issued	**131,130**
Re-measurement on convertible bonds:	
— Exchange difference	**50**
— Fair value gain	**(10,678)**
At December 31, 2018	**120,502**

On August 13, 2018 ("**Issue Date**"), the Group issued convertible bonds to an independent third party with principal amount of HKD150,000,000 (equivalent to approximately RMB131,130,000) with a maturity period of two years to August 13, 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**").

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.

The convertible bonds can be converted into ordinary shares of the Company at the holder's option at an initial conversion price of HKD 2.50 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.

The detailed terms of the convertible bonds are set out in the announcement issued by the Group on July 31, 2018.

The entire convertible bonds are designated as financial liabilities at FVTPL on inception date and as at December 31, 2018.

The Group's convertible bonds are valued by an independent professional valuation firm by using lattice model with the following key inputs:

	On inception date	As at December 31, 2018
Risk free rates	1.87%	**1.74%**
Discount rate	18.40%	**18.28%**
Dividend yield	0.95%	**1.03%**
Expected volatility	57.28%	**45.47%**

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED COMPENSATION TRANSACTIONS

The Group issued four tranches of share options on February 1, 2007, April 21, 2011, March 26, 2014 and September 3, 2018 respectively.

(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 February 1, 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 April 21, 2011	200,000		10 years
— On March 26, 2014	503,858		10 years
— On September 3, 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 September 3, 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 February 1, 2007	200,000	Vested immediately on grant date	10 years
— On March 26, 2014	26,799		10 years
Options granted to SAIF			
— On April 21, 2011	168,666	Vested immediately on grant date	10 years
— On March 26, 2014	136,000		10 years
Total share options granted	17,466,657		

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED COMPENSATION TRANSACTIONS *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	At December 31, 2018		At December 31, 2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**USD0.0003**	**12,670,529**	USD0.01	695,180
Exercised during the year (note 27(c)(ii))	**USD0.0003**	**(370,118)**	USD0.01	(200,000)
Additions upon capitalization issue	**–**	**–**	–	15,715,237
Exercised during the year	**–**	**–**	USD0.0003	(877,303)
Granted during the year	**HKD 1.71**	**15,500,000**	–	–
Forfeited during the year	**–**	**–**	USD0.0003	(2,662,585)
Outstanding at the end of the year	**USD0.0003**	**12,300,411**	USD0.0003	12,670,529
Outstanding at the end of the year	**HKD1.71**	**15,500,000**	–	–
Exercisable at the end of the year	**USD 0.0003**	**12,300,411**	USD0.0003	11,983,183
Exercisable at the end of the year	**HKD1.71**	**1,125,000**	–	–

(Expressed in Renminbi unless otherwise indicated)

24 EQUITY-SETTLED SHARE-BASED COMPENSATION TRANSACTIONS *(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	HKD13,574,844
Share price	USD0.80	USD1.14	USD1.23	HKD1.71
Exercise price (note)	USD0.01	USD0.01	USD0.01	HKD1.71
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial option pricing model)	51.90%	50.15%	46.15%	58.25%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	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 (based on Exchange Fund Notes)	4.14%	2.72%	2.29%	2.15%

24 EQUITY-SETTLED SHARE-BASED COMPENSATION TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions *(Continued)*

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 on February 1, 2007, April 21, 2011 and March 26, 2014 was changed to USD 0.0003 per share upon a capitalisation issue prior to the Company's Initial Public Offering in June 2017.

(d) Equity-settled share-based compensation expenses recognized in the consolidated statement of profit or loss during the year are set out as follows:

	2018 RMB'000	2017 RMB'000
Sales and marketing expenses	**689**	56
General and administrative expenses	**978**	67
Research and development expenses	**355**	80
	2,022	203
Represented by:		
Staff costs (note 5(b))	**2,022**	203

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represent:

	2018 RMB'000	2017 RMB'000
Balance at January 1	**5,601**	21,401
Acquisition through business combination	**(3,756)**	–
Provision for current income tax for the year (note 6(a))	**14,891**	3,083
Under-provision in prior years (note 6(a))	**175**	610
Reversal of provision for permanent establishment risk (note 6(a))	**(1,400)**	(4,312)
Payment during the year	**(3,045)**	(15,181)
Balance at December 31	**12,466**	5,601
Reconciliation to the consolidated statement of financial position:		
Income tax payable	**12,551**	6,806
Income tax recoverable (note 17)	**(85)**	(1,205)
Balance at December 31	**12,466**	5,601

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

(b) Deferred tax assets and liabilities recognized:

(i) Movement of each component of deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Tax losses RMB'000	Impairment losses on receivables and inventories RMB'000	Unrealized profit due to intra-group transactions RMB'000	Accrued expenses and other payables RMB'000	Deferred income RMB'000	Intangible assets RMB'000	Withholding tax on distributable profits RMB'000	Intangible assets identified in business combination RMB'000	Total RMB'000
At January 1, 2017	–	655	1,844	854	1,142	(949)	(10,961)	–	(7,415)
Credited/(charged) to profit or loss (note 6(a))	2,264	907	(463)	973	(242)	251	5,549	–	9,239
At December 31, 2017	2,264	1,562	1,381	1,827	900	(698)	(5,412)	–	1,824
Impact on initial application of HKFRS 9 (note 1(c))	–	325	–	–	–	–	–	–	325
At January 1, 2018	2,264	1,887	1,381	1,827	900	(698)	(5,412)	–	2,149
Acquisition through business combination (note 30)	1,294	3,470	–	61	–	–	–	(55,448)	(50,623)
(Charged)/credited to profit or loss (note 6(a))	(317)	2,975	(654)	(1,015)	110	257	1,712	5,105	8,173
Credited/(charged) to profit or loss due to a change in tax rate (note 6(a))	2,160	2,706	485	340	674	(294)	–	–	6,071
At December 31, 2018	5,401	11,038	1,212	1,213	1,684	(735)	(3,700)	(50,343)	(34,230)

(ii) Reconciliation to the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000
Deferred tax assets recognized in the consolidated statement of financial position	**19,813**	7,236
Deferred tax liabilities recognized in the consolidated statement of financial position	**(54,043)**	(5,412)
	(34,230)	1,824

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(u), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB33,126,000 (2017: RMB4,506,000) and deductible temporary differences of RMB8,251,000 (2017: Nil) of certain subsidiaries as it is not probable that future taxable profits against which the tax losses and deductible temporary differences can be utilised will be available in the relevant tax jurisdiction before they expire.

(d) Deferred tax liabilities not recognized

As at December 31, 2018, deferred tax liabilities of RMB3,951,200 (2017: RMB230,000) relating to the undistributed profits of PRC subsidiaries amounting to RMB39,512,000 (2017: RMB4,604,000) have not been recognized in the consolidated financial statements as the Group controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

26 DEFERRED INCOME

Deferred income represents conditional government subsidies for encouragement of research and development projects, which is recognized in profit or loss in accordance with the accounting policy adopted for government grants set out in note 1(w)(v).

27 CAPITAL AND RESERVES

(a) Movements in components of equity:

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at January 1, 2017		1	154	158,626	(24)	(6,946)	151,811
Changes in equity for 2017:							
Total comprehensive income for the year		–	–	–	1,517	(12,155)	(10,638)
Equity-settled share-based payments		–	–	203	–	–	203
Issue of ordinary shares under share option plan		1	1,321	(1,306)	–	–	16
Capitalization issue		51	(51)	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs		18	165,519	–	–	–	165,537
Balance at December 31, 2017 and January 1, 2018		71	166,943	157,523	1,493	(19,101)	306,929
Changes in equity for 2018:							
Total comprehensive income for the year		–	–	–	10,878	(18,342)	(7,464)
Equity-settled share-based payments		–	–	2,022	–	–	2,022
Issue of ordinary shares under share option plan	27(c)	–	94	(93)	–	–	1
Balance at December 31, 2018		71	167,037	159,452	12,371	(37,443)	301,488

27 CAPITAL AND RESERVES (Continued)

(b) Dividends

The Board did not recommend the payment of a final dividend for year ended December 31, 2018 (2017: Nil).

(c) Share capital

(i) Authorized and issued shares capital

	Par value HK$	No. of shares '000	HK$'000
Authorized shares at December 31, 2018:			
Ordinary shares, issued and fully paid			
At January 1, 2017	0.0001	18,128	2
Issue of shares under share option plan	0.0001	1,077	–
Capitalization issue	0.0001	581,672	58
Initial public offering	0.0001	210,000	21
At December 31, 2017	0.0001	810,877	81
RMB equivalent ('000)			71
At January 1, 2018	0.0001	810,877	81
Issue of shares under share option plan (note (ii))	0.0001	370	–
At December 31, 2018	0.0001	811,247	81
RMB equivalent ('000)			71

(ii) Shares issued under Pre-IPO share option scheme

On July 25, 2018, the Company allotted and issued 370,118 ordinary shares pursuant to exercise of share options by a grantee under the Pre-IPO Share Option Scheme adopted on August 25, 2016 at the exercise of US$0.0003 per share.

(d) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

27 CAPITAL AND RESERVES *(Continued)*

(e) Capital reserve

Capital reserve comprised the followings:

— the fair value of unexercised share options (see note 24(c));

— 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, and;

— 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 August 10, 2018 (the date of exchange) when acquiring the non-controlling interest in a subsidiary, Changsha Risecomm Communication Technology Company Limited.

(f) PRC statutory reserves

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

For the entities concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(g) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group companies outside the mainland China which are dealt with in accordance with the accounting policies set out in note 1(x).

27 CAPITAL AND RESERVES *(Continued)*

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the adjusted net debt-to-capital ratio. The ratio is calculated as net debt divided by equity. The Group defines net debt as interest-bearing liabilities less cash and cash equivalents. Total equity comprises all components of equity.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

	NOTE	**2018** **RMB'000**	2017 RMB'000
Current liabilities:			
Acquisition consideration payables			
— Contingent consideration notes payable	22	**179,080**	N/A
		179,080	N/A
Non-current liabilities:			
Acquisition consideration payables	22	**105,255**	N/A
Convertible bonds	23	**120,502**	N/A
		225,757	N/A
Total debt		**404,837**	N/A
Less: Cash and cash equivalents	19	**(267,037)**	N/A
Adjusted net debt		**137,800**	N/A
Total equity		**400,786**	N/A
Adjusted net debt-to-equity ratio		**34.38%**	N/A

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Bank deposits are placed with financial institutions that have high credit ratings. Bills receivable are guaranteed for payments by financial institutions. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

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, 18.8% (2017: 18.7%) and 41.8% (2017: 21.3%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strengths, historical repayment records and current repayment ability, and take into account information specific to the economic environment in which the customer operates. Trade receivables under credit sales arrangement are due in accordance with specific payment terms agreed with individual customer on a case by case basis subject to the fulfilment of conditions as stipulated in the respective sales contracts. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience shares significantly different loss patterns for different customer portfolio, the provision for loss allowance based on invoice date aging is further distinguished between the Group's customer portfolios of different risk types.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at December 31, 2018:

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Risk Category I			
Within 6 months	3.0%	67,595	2,028
After 6 months but within 1 year	10.0%	18,398	1,842
After 1 year but within 2 years	25.0%	2,613	930
After 2 years but within 3 years	50.0%	566	283
After 3 years	100.0%	200	220
Individually impaired		28,780	25,198
		118,172	30,501

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Risk Category II			
Within 6 months	1.5%	2,216	33
After 6 months but within 1 year	5.0%	540	29
After 1 year but within 2 years	12.5%	789	182
After 2 years but within 3 years	25.0%	–	–
After 3 years	50.0%	–	–
Individually impaired		1,471	767
		5,016	1,011

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Risk Category III			
Within 6 months	0.5%	87,092	435
After 6 months but within 1 year	3.3%	8,725	301
After 1 year but within 2 years	6.8%	4,934	1,153
After 2 years but within 3 years	25.0%	7,140	1,785
After 3 years	50.0%	1,064	532
Individually impaired		–	–
		118,955	4,206

Expected loss rates are based on actual loss experience over the past recent years. These rates are adjusted to reflect differences between economic conditions during the period 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.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at December 31 under HKAS 39	**5,144**	3,442
Impact on initial application of HKFRS 9 (note 1(c)(i))	**2,015**	–
Adjusted balance at January 1	**7,159**	3,442
Acquired from business combinations	**11,237**	–
Impairment losses recognized during the year (note 5 (d))	**17,322**	1,702
Balance at December 31 (note 17 (a))	**35,718**	5,144

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows the contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	As at December 31, 2018			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables	**124,006**	**–**	**124,006**	**124,006**
Convertible bonds (note)	**5,257**	**136,687**	**141,944**	**120,502**
Acquisition consideration notes payables	**201,609**	**116,259**	**317,868**	**293,210**
Total	**336,134**	**252,946**	**589,080**	**537,718**

	As at December 31, 2017			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables	72,556	–	72,556	72,556

Note: The maturity period of convertible bonds was two years which can be extended to the date falling 36 months from the Issue Date at the request of the Group (refer to note 23).

(c) Currency risk

The Group is exposed to currency risk primarily through purchases which give rise to payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States Dollars ("**USD**").

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(Continued)

(c) Currency risk *(Continued)*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognized assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	Exposure to USD (expressed in RMB)	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**8,615**	38,681
Trade and other payables	**(125,673)**	(100,936)
	(117,058)	(62,255)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant:

	2018		2017	
	Increase/ decrease in foreign exchange rates	**(Decrease)/ increase in profit after taxation and retained earnings**	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings
		RMB'000		RMB'000
USD	**5%**	**(4,975)**	5%	(2,646)
	–5%	**4,975**	–5%	2,646

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) Interest rate profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows.

	2018 RMB'000	2017 RMB'000
Fixed rate:		
Convertible bonds	**120,502**	–
Acquisition consideration notes payables	**284,335**	–
	404,837	–
Variable rate:		
Cash at bank and on hand	**267,037**	184,643
Restricted bank deposits	**148**	–
Financial investments at fair value through profit or loss	**10,000**	–
	277,185	184,643

(ii) Interest rate sensitivity analysis

As at December 31, 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax for the year and consolidated equity by approximately RMB2,271,000 (2017: RMB1,613,000).

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

The Group has a financial reporting team performing valuations for the financial instruments. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the directors is held twice a year, to coincide with the reporting dates. The Group's engages external valuation firms to perform valuations for its financial instruments where necessary.

	Fair value at December 31, 2018 RMB'000	Fair value measurements as at December 31, 2018 categorised into			Fair value at December 31, 2017 RMB'000
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Recurring fair value measurements					
Assets:					
Financial investments at fair value through profit or loss	10,000	–	10,000	–	–
Liabilities:					
Contingent share consideration	23,325	–	–	23,325	–
Contingent consideration note payables	284,335	–	–	284,335	–
Convertible bonds	120,502	–	120,502	–	–

During the years ended December 31, 2017 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

For the fair value of contingent share consideration and the valuation techniques and inputs, please see note 30 (a)(i).

For the fair value of contingent consideration notes payable and the valuation techniques and inputs, please see note 30 (b)(i).

For the fair value of convertible bonds and the valuation techniques and inputs, please see note 23.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2018.

29 COMMITMENTS

(a) Operating leasing commitments

At December 31, 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**5,315**	6,095
After 1 year but within 5 years	**1,684**	2,488
	6,999	8,583

These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

30 ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of North Mountain Information Technology Company Limited

On March 15, 2018, the Company's subsidiary, Harvest Year Global Limited ("**Harvest Year**") entered into an agreement with the shareholder of North Mountain Information Technology Company Limited ("**NM Technology**") to acquire 100% equity interest of NM Technology. On April 30, 2018 ("**the NM Acquisition Date**"), such acquisition was completed and the Group obtained control of NM Technology.

The principal activities of NM Technology is investment holding, and through its PRC subsidiary, engaged in sales and distribution of electronic components in the PRC. The acquisition of NM Technology was aimed at allowing the Group to diversify its customer base, achieve vertical integration of the Group's business and broaden the Group's revenue stream in AMR business. Goodwill recognized on the acquisition is attributable mainly to the synergies and economies of scale expected from combining the operations of the Group and NM Technology. The goodwill recognized is not deductible for tax purposes.

(i) Set forth below is the calculation of goodwill:

	RMB'000
Consideration	
— Cash deposit paid in year 2017	12,000
— Promissory note (a)	8,625
— Fair value of contingent cash consideration (b)	15,000
— Fair value of contingent share consideration (c)	31,566
Total consideration	67,191
Less: fair value of net identifiable net assets acquired (note ii)	(29,255)
Goodwill (note 12)	37,936

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(a) Acquisition of North Mountain Information Technology Company Limited *(Continued)*

(i) (Continued)

(a) According to the sales and purchase agreement (the "**SPA**"), the Group is required to issue an unsecured, non-interest bearing promissory note with payment due date of 12 months from the NM Acquisition Date. The face value and fair value of the promissory note at the NM Acquisition Date was RMB9,000,000 and RMB8,625,000, respectively. The promissory note is included in acquisition consideration payables (note 22) and measured at amortized cost. A finance cost of RMB250,000 was recognized in profit or loss for the current period accordingly.

(b) The SPA requires the Group to pay in cash of RMB15,000,000 to the shareholder of NM Technology with reference to the achievement of certain performance indicators of the acquired business. The performance target was achieved and the cash consideration was paid in August 2018.

(c) According to the SPA, the final payment with a maximum amount of RMB45,000,000 will be settled with newly issued ordinary shares of the Company at a conversion price of HKD3.40 per share. The consideration amount will be downward adjusted by 9 times of any shortfall between the audited consolidated profit after tax (excluding extraordinary items) of NM Technology for the year ended December 31, 2018 and RMB9,000,000. The contingent shares are expected to be issued in 2019 when the audited consolidated profit after tax (excluding extraordinary items) of NM Technology for the year ended December 31, 2018 is confirmed.

At the NM Acquisition Date, the fair value of the contingent share consideration was determined to be RMB31,566,000 with reference to the quoted market price of the Company's shares of HKD2.88 (equivalent to RMB2.33) at the NM Acquisition Date multiplied by the number of contingent consideration shares expected to be issued based on the forecasted performance of NM Technology for year ended December 31, 2018.

The contingent share consideration is included in acquisition consideration payables in the Group's consolidated statement of financial position. Its fair value had decreased to RMB23,325,000 as at December 31, 2018 mainly due to a decrease in market price of the Company's shares and the corresponding fair value change of RMB8,241,000 was recognized as a gain in profit or loss for the current period.

The fair value measurement of the contingent share consideration payable is based on a significant input of discount for lack of marketability of 7% that are not observable in the market, which HKFRS 13 *Fair Value Measurement* refers to as Level 3 inputs. The fair value measurement is negatively correlated to the discount for lack of marketability. As at December 31, 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's profit and loss by RMB1,252,000.

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(a) Acquisition of North Mountain Information Technology Company Limited *(Continued)*

(ii) The major components of assets and liabilities arising from the acquisition of NM Technology are as follows:

	Pre-acquisition carrying amount RMB'000	Fair value adjustment RMB'000	Recognized values on acquisition RMB'000
Property, plant and equipment	156	–	156
Intangible assets (note 11)	3	18,947	18,950
Deferred tax assets	191	–	191
Inventories	9,675	–	9,675
Trade and other receivables	41,693	–	41,693
Cash and cash equivalents	1,025	–	1,025
Trade and other payables	(37,526)	–	(37,526)
Income tax payable	(172)	–	(172)
Deferred tax liabilities	–	(4,737)	(4,737)
Net identifiable assets	15,045	14,210	29,255

Intangible assets arising from the acquisition mainly represent customer relationship and non-compete undertakings. The Group has engaged an external valuation firm to perform fair value assessments on these intangible assets in accordance with HKAS 38 *Intangible Assets* and HKFRS 3 (Revised) *Business Combination*.

The fair value of the trade and other receivables as at the NM Acquisition Date amounted to RMB41,693,000. The gross contractual amount was RMB42,455,000, of which RMB762,000 was expected to be uncollectible.

Acquisition-related costs of RMB448,000 and RMB52,000 had been charged to administrative expenses in the consolidated statement of profit or loss for the years ended December 31, 2018 and 2017 respectively.

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(a) Acquisition of North Mountain Information Technology Company Limited *(Continued)*

(iii) Net cash outflow arising on the acquisition

	RMB'000
Consideration paid in cash during the year	15,000
Less: cash and cash equivalents acquired	(1,025)
	13,975

(iv) Impact of acquisition on the results of the Group

The post-acquisition revenue and net profit that NM Technology contributed to the Group for the year ended December 31, 2018 were RMB75,499,000 and RMB5,132,000 respectively.

Had the acquisition occurred on January 1, 2018, management estimates that the Group's consolidated revenue and consolidated profit for the year ended December 31, 2018 would have been RMB501,246,000 and RMB5,172,000 respectively.

In determining these amounts, management has assumed that the fair value change of contingent share consideration and finance costs arose on the above acquisition would have been the same had the acquisition occurred on January 1, 2018.

(b) Acquisition of Green Harmony Limited

On December 28, 2017, the Company entered into an agreement with the shareholder of Green Harmony Limited ("**Green Harmony**") to acquire 100% equity interest of Green Harmony. On August 15, 2018 ("**the GH Acquisition Date**"), such acquisition was completed and the Group obtained control of Green Harmony.

The principal activities of Green Harmony is investment holding, and through its PRC subsidiaries, engaged in the sale of software license, production safety products as well as the provision of software post-contract customer support services in connection with the SMIA applied in the petroleum and petrochemicals industry. Goodwill arose in the acquisition of Green Harmony was mainly attributable to the control premium therein. In addition, the consideration paid for the business combination effectively included amounts in valuation to the benefit of expected synergies, revenue growth, and future market potential of Green Harmony's business. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill recognized is not deductible for tax purposes.

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Green Harmony Limited *(Continued)*

(i) Set forth below is the calculation of goodwill:

	RMB'000
Consideration	
— Cash paid	87,720
— Fair value of contingent consideration notes payable (note a)	275,955
Total consideration	363,675
Less: fair value of net identifiable net assets acquired (note ii)	(186,464)
Goodwill (note 12)	177,211

(a) According to the sales and purchase agreement (the "**SPA**"), the Group is required to issue an unsecured promissory note (the "**First Promissory Note**") with a coupon interest rate of 8% per annum and payment due date of 12 months from the GH Acquisition Date. The face value of the "First Promissory Note" at the GH Acquisition Date is HKD200,000,000. The Group can redeem the principal amount of HKD200,000,000 of the First Promissory Note with reference to achievement of certain performance indicators of the acquired business. On March 15, 2019, the payment due date was extended to August 14, 2020 (refer to note 33).

According to the SPA, the Group is required to issue another unsecured promissory note (the "**Second Promissory Note**") on or before December 31, 2018, 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 issue date is HKD200,000,000. The Second Promissory Note was issued on December 31, 2018.

The principal amount of First Promissory Note and the Second Promissory Note will be downward adjusted by 10 times of any shortfall between the audited consolidated profit after tax (excluding extraordinary items) of Green Harmony for the year ended December 31, 2018 and HKD50,000,000.

At the GH Acquisition Date, the fair value of the contingent consideration notes payable was determined to be RMB275,955,000 by discounting the expected cash flows over the contractual term of the contingent notes payable at a discount rate which was deemed appropriate to the riskiness of the instrument, with reference to comparable bond rate, and forecasted financial performance of Green Harmony for year ended December 31, 2018.

The fair value of the contingent consideration notes payable had increased by RMB8,495,000 as at December 31, 2018 mainly due to the interest winding-up.

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Green Harmony Limited *(Continued)*

(ii) The major components of assets and liabilities arising from the acquisition are as follows:

	Pre-acquisition carrying amount RMB'000	Fair value adjustment RMB'000	Recognized values on acquisition RMB'000
Property, plant and equipment	144	–	144
Intangible assets (note 11)	–	202,844	202,844
Deferred tax assets	4,634	–	4,634
Inventories	22,720	–	22,720
Trade and other receivables	33,596	–	33,596
Contract assets	680	–	680
Cash and cash equivalents	3,241	–	3,241
Trade and other payables	(7,501)	–	(7,501)
Contract liabilities	(21,872)	–	(21,872)
Income tax payable	(1,311)	–	(1,311)
Deferred tax liabilities	–	(50,711)	(50,711)
Net identifiable assets	34,331	152,133	186,464

Intangible assets arising from the acquisition mainly represent customer relationship and non-compete undertakings and unfulfilled contracts. The Group has engaged an external valuation firm to perform fair value assessments on these assets in accordance with HKAS 38 *Intangible Assets* and HKFRS 3 (Revised) *Business Combination*.

The fair value of the trade and other receivables as at the GH Acquisition Date amounted to RMB33,596,000. The gross contractual amount was RMB44,740,000 of which RMB11,144,000 was expected to be uncollectible.

Acquisition-related costs of RMB3,239,000 and RMB2,563,000 had been charged to administrative expenses in the consolidated statement of profit or loss for the years ended December 31, 2018 and 2017 respectively.

(iii) Net cash outflow arising on the acquisition

	RMB'000
Consideration paid in cash	87,720
Less: cash and cash equivalents acquired	(3,241)
	84,479

30 ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Green Harmony Limited *(Continued)*

(iv) Impact of acquisition on the results of the Group

The post-acquisition revenue and net profit that Green Harmony contributed to the Group for the year ended December 31, 2018 were RMB128,283,000 and RMB34,379,000 respectively.

Had the acquisition occurred on January 1, 2018, management estimates that the Group's consolidated revenue and consolidated loss for the year ended December 31, 2018 would have been RMB501,045,000 and RMB7,165,000 respectively.

In determining these amounts, management has assumed that the fair value change of contingent consideration notes payable arose on the above acquisition would have been the same had the acquisition occurred on January 1, 2018.

31 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**10,290**	10,046
Post-employee benefits	**212**	253
Equity-settled share-based payments	**764**	115
	11,266	10,414

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Transactions with related parties

	2018 **RMB'000**	2017 RMB'000
Recurring transactions:		
Office premises rental expenses paid to		
Wang Shiguang	**724**	724

As at December 31, 2018, the Group had nil balance with related parties (2017: nil.).

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**522,460**	158,984
Other non-current assets	**–**	11,823
	522,460	170,807
Current assets		
Deposits and prepayments	**1,521**	438
Amounts due from subsidiaries	**127,363**	89,056
Cash and cash equivalents	**57,392**	46,628
	186,276	136,122
Current liabilities		
Acquisition consideration payables	**179,080**	–
Other payables	**2,411**	–
	181,491	–
Net current assets	**4,785**	136,122
Total assets less current liabilities	**527,245**	306,929
Non-current liabilities		
Acquisition consideration payables	**105,255**	–
Convertible bonds	**120,502**	–
	225,757	–
Net assets	**301,488**	306,929
Equity		
Share capital	**71**	71
Reserves	**301,417**	306,858
Total equity	**301,488**	306,929

(Expressed in Renminbi unless otherwise indicated)

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On January 15, 2019, the Company allotted and issued 11,436,824 ordinary shares pursuant to exercise of share options by grantees under the Pre-IPO Share Option Scheme adopted on August 25, 2016.

On March 15, 2019, the Company agreed with the ex-shareholder of Green Harmony to extend the maturity date of the First Promissory Note for one more year to August 14, 2020 (see note 30 (b) for details).

34 COMPARATIVE FIGURES

The Group adopted HKFRS 15 and HKFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 19, Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
HKFRS 3 (Revised), Business Combinations	1 January 2020
HKFRS 1, (Revised) Presentation of financial statements	1 January 2020
HKFRS 8, Accounting policies, changes in accounting estimates and errors	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

(Continued)

While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending June 30, 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that low report.

HKFRS 16, *Leases*

The Group enters into some leases as the lessee and accounts for the lease arrangements in accordance with accounting policy disclosed in note 1(l).

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after January 1, 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019 and will not restate the comparative information. As disclosed in note 29(a), at December 31, 2018 the Group's future minimum payments under non-cancellable operating leases amount to RMB6,999,000 among which RMB1,684,000 is payable after 1 year. Upon the initial adoption of HKFRS 16, some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

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

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	232,628	340,724	390,210	317,333	**475,793**
Gross profit	114,822	175,753	195,263	145,727	**159,534**
Net profit	40,555	55,192	57,603	12,851	**4,195**
Profit attributable to owners of the Company	40,555	55,300	57,743	12,670	**4,204**
Total assets	308,373	407,256	355,134	482,355	**1,058,857**
Total liabilities	127,226	164,587	134,425	90,974	**658,071**
	181,147	242,669	220,709	391,381	**400,786**
Equity attributable to:					
— Equity shareholders of the Company	181,147	242,777	220,707	391,198	**400,786**
— Non-controlling interests	–	(108)	2	183	**–**
	181,147	242,669	220,709	391,381	**400,786**
Gross profit margin[1]	49.4%	51.6%	50.0%	45.9%	**33.5%**
Net profit margin[2]	17.4%	16.2%	14.8%	4.0%	**0.9%**
Current ratio[3]	2.58	2.65	2.67	5.23	**1.55**
Quick ratio[4]	2.34	2.14	2.26	4.32	**1.46**
Net debt to equity ratio[5]	N/A	N/A	N/A	N/A	**34.4%**

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.