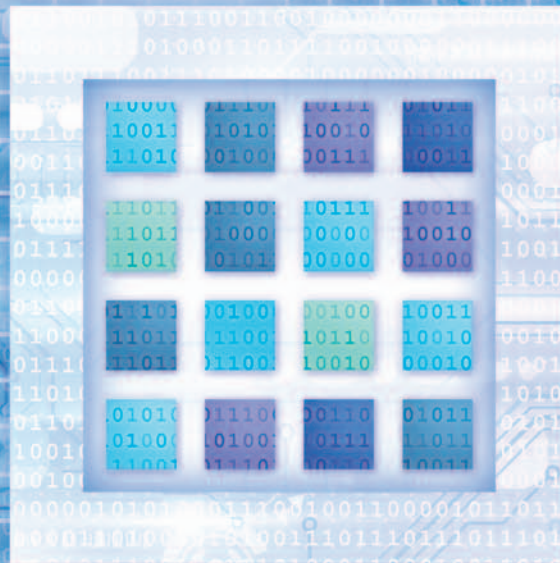




RISECOMM
瑞斯康

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



2020
INTERIM REPORT

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yue Jingxing
Mr. Lau Wai Leung, Alfred (resigned on June 24, 2020)
Mr. Tang Andong

NON-EXECUTIVE DIRECTORS

Mr. Cheung Fan (*Chairman*)
Mr. Wang Shiguang
Mr. Zhou, Francis Bingrong
Ms. Pan Hong (appointed on June 24, 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Leung Ka Lok (*HKICPA, FCCA, MBA*)
(resigned on July 3, 2020)
Mr. Lau Wai Leung, Alfred (appointed on July 3, 2020)

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Yue Jingxing
Mr. Leung Ka Lok (*HKICPA, FCCA, MBA*)
(resigned on July 3, 2020)
Mr. Lau Wai Leung, Alfred (appointed on July 3, 2020)

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Cheung Fan (*Chairman*)
Mr. Ong King Keung
Ms. Lo Wan Man

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

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

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

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

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
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

CORPORATE INFORMATION *(continued)*

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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.risecomm.com.cn

STOCK CODE

1679

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

On the other hand, during the six months ended June 30, 2020 (“**Period**”) under review, the Group’s Smart Manufacturing & Industrial Automation (“**SMIA**”) business segment has continued to explore the field of industrial automation systems by leveraging its core technology competency, particularly in the area of maintenance and safety integrity system (“**MSI**”) for the petroleum and petrochemicals industry. According to a market report “2018 China Intelligent Manufacturing Development Annual Report” (2018中國智慧製造發展年度報告) released by China Center for Information Industry Development (中國電子資訊產業發展研究院), the market size of China intelligent manufacturing system solutions reached RMB156 billion in 2018, while further expecting to exceed RMB238 billion by 2020. This is a tremendous market which allows the market players to explore in various aspects in the smart manufacturing area.

BUSINESS REVIEW

During the Period under review, the Group operated in two major business segments. Firstly, the Group operated in AMR and other business, where the Group sold PLC products such as PLC integrated circuits (“**ICs**”), modules and devices such as connectors and concentrators, which have been mainly used in the deployment and upgrade of AMR systems for smart meters by power grid companies in China as a key part of the smart grid infrastructure. The Group 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, the Group expanded its business in late 2018 and engages in SMIA business where the Group offered software licenses, production safety products as well as provision of software post-contract customer support services applied in the area of MSI in the petroleum and petrochemicals industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

During the Period under review, the Group recorded revenue of approximately RMB37.2 million (for the corresponding period in 2019: approximately RMB89.6 million), representing a decrease of 58.5%.

The Group's AMR and other business segment recorded a revenue of approximately RMB16.4 million (for the corresponding period in 2019: approximately RMB66.1 million), representing a decrease of approximately 75.2%. Revenue from AMR and other business segment for the Period under review accounted for approximately 44.1% (for the corresponding period in 2019: 73.8%) of the Group's total revenue. A significant decrease in revenue from AMR and other business segment for the Period under review was mainly due to (a) a decrease in demand for the Group's PLC based narrowband AMR products by State Grid; and (b) a delay in debut of the Group's PLC based broadband AMR products given the testing and processing time for the final approval run by the State Grid had taken longer than expected due to the outbreak of the coronavirus (COVID-19) pandemic in the PRC in early 2020. As at the date of this report, China Electric Power Research Institute (中國電力科學研究院) has yet to officially issue the certificate letter to endorse our PLC broadband chipsets and modules which meet the protocol standards of broadband system-on-chip IC promulgated by the State Grid. The directors ("**Directors**") of the Company expect this certificate could be obtained in the second half of 2020.

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

The Group has been closely monitoring the impact from the COVID-19 pandemic on the Group's business. Faced with further hamper and uncertainties on Chinese economy caused by, among others, ad hoc COVID-19 pandemic, the Group has maintained a lean-cost strategy in so as to reduce the operating cost, especially the workforces in the administrative and research & development aspects, to respond to the pressure in less revenue generated. The Group will continue to review the measures adopted as the COVID-19 pandemic evolves.

As far as the Group's businesses are concerned, the Group had experienced delay in the full resumption of operation and production of the Group during the Period under review, and as mentioned above, due to the outbreak of COVID-19 pandemic in the PRC, the testing and processing time for the final approval run by the State Grid had taken longer than expected and caused a delay in debut of the Group's PLC based broadband AMR products. Should the Group's PLC based broadband AMR products not pass through the final approval process run by the State Grid in the year 2020, the Group may not achieve the expected sales of PLC based broadband AMR products in the year 2020 and 2021. If this happens, the Group's business and operation strategy as well as the financial performance of the AMR and other business of the Group will be adversely affected in the short and long run and that an impairment of the goodwill and other intangible assets associated with the AMR and other business may be required.

During the Period under review, the Group's SMIA business segment recorded a revenue of approximately RMB20.8 million (for the corresponding period in 2019: RMB23.5 million), representing a decrease of approximately 11.5%. Revenue from SMIA business segment for the Period under review accounted for approximately 55.9% (for the corresponding period in 2019: 26.2%) of the Group's total revenue. A decrease in revenue from SMIA business segment for the Period under review was mainly due to an unexpected delay in delivery/implementation of certain contracts held as of June 30, 2020 caused by the outbreak of COVID-19 pandemic in the PRC in early 2020.

The Group recorded an increase in loss attributable to the equity shareholders of the Company from approximately RMB40.8 million in the corresponding period in 2019 to approximately RMB56.4 million for the Period under review.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

The loss attributable to the equity shareholders of the Company was mainly attributable to (i) the significant decrease in revenue from the AMR and other business segment as mentioned above; and (ii) an increase in general and administrative expenses for the Period under review as compared to that of the corresponding period in 2019 which was primarily attributable to impairment loss on trade receivables which were long aged and considered impaired.

RESEARCH AND DEVELOPMENT

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

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

As of June 30, 2020, the research and development team of the Group consisted of 58 employees (as of December 31, 2019: 67 employees), representing approximately 29% (as of December 31, 2019: approximately 30%) of the Group's total workforce, specialising in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As of June 30, 2020, the Group had successfully developed a significant intellectual property portfolio, comprising 18 patents, 99 computer software copyrights and 9 IC layout designs registered, with 5 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development of the PLC technology and MSI for the petroleum and petrochemicals industry.

FINANCIAL REVIEW

Revenue

Revenue decreased from approximately RMB89.6 million for the corresponding period in 2019 to approximately RMB37.2 million for the Period under review, or by approximately 58.5%. The decrease was mainly due to (a) a decrease in demand for the Group's PLC based narrowband AMR products by State Grid; and (b) a delay in debut of the Group's PLC based broadband AMR products. Such delay in debut of the Group's PLC based broadband AMR products led to a decrease in revenue generated from the Group's AMR products under the centralized biddings conducted by State Grid and customers under State Grid local biddings and trading sales for the Period under review as compared to that of the corresponding period in 2019.

Gross profit

Gross profit decreased by approximately 42.8% to approximately RMB11.9 million for the Period under review from approximately RMB20.8 million for the corresponding period in 2019.

Gross profit margin was approximately 32.0% for the Period under review and has increased from approximately 23.2% for the corresponding period in 2019, representing an increase of gross profit margin by 8.8 percentage points. The reason for increase in gross profit margin was attributable to a decrease in impairment losses on inventories and a decrease in revenue from trading sales (which earned a relatively lower gross profit margin in general) for the Period under review as compared to the corresponding period in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Other income

Other income decreased by approximately 72.7% to approximately RMB3.3 million for the Period under review from approximately RMB12.1 million for the corresponding period in 2019. The decrease was mainly attributable to a decrease in government grants for the Period under review to approximately RMB2.4 million as compared to approximately RMB8.2 million for the corresponding period in 2019.

Sales and marketing expenses

Sales and marketing expenses significantly decreased by approximately 55.8% to approximately RMB8.0 million for the Period under review from approximately RMB18.1 million for the corresponding period in 2019. This decrease was mainly attributable to an implementation of tightened cost control measures adopted by the Group on sales and marketing expenses.

General and administrative expenses

General and administrative expenses increased by approximately 15.4% to approximately RMB52.4 million for the Period under review from approximately RMB45.4 million for the corresponding period in 2019. Despite an implementation of tightened cost control measures adopted by the Group on general and administrative expenses, the increase was primarily attributable to an increase in impairment loss on trade receivables which were long aged and considered impaired. The Group has initiated legal proceedings to recover certain trade receivables which were long aged.

Research and development expenses

Research and development expenses decreased by approximately 30.8% to approximately RMB11.0 million for the Period under review from approximately RMB15.9 million for the corresponding period in 2019. The decrease was mainly attributable to (i) an implementation of tightened cost control measures adopted by the Group on research and development expenses; and (ii) a decrease in staff costs incurred during the Period under review since the headcount of Group's research and development team reduced to 58 employees as of June 30, 2020 (June 30, 2019: 86 employees). During the Period under review, the Group had strategically retained the resources on the development of the Group's core PLC technology and the expansion of software application in the SMIA business segment.

Fair value (losses)/gains on financial instruments at fair value

During the Period under review, the Group recorded fair value losses on financial instruments at fair value of approximately RMB6.0 million (for the corresponding period in 2019: fair value gains on financial instruments at fair value of approximately RMB7.1 million) which was attributable to changes in fair value of financial instrument of the Convertible Bonds (as defined below).

Income tax credit/(expenses)

Income tax credit of approximately RMB11.0 million was recorded during the Period under review while income tax expense of approximately RMB1.0 million was recorded for the corresponding period in 2019. The recognition of income tax credit was mainly attributable to the recognition of deferred tax asset arising from tax losses.

Loss Attributable to Equity Shareholders of the Company

As a result of the above factors, the Company recorded a loss attributable to equity shareholders of the Company for the Period under review of approximately RMB56.4 million (for the corresponding period in 2019: loss attributable to equity shareholders of the Company: approximately RMB40.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Goodwill

As of June 30, 2020, the carrying amount of the Group's goodwill amounted to approximately RMB44.0 million (December 31, 2019: approximately RMB44.0 million) of which approximately RMB23.3 million and RMB20.7 million (December 31, 2019: approximately RMB23.3 million and RMB20.7 million) is allocated to the Group's cash-generating units (the "CGU") of AMR and other business segment and the SMIA business segment, respectively. The Company's accounting policy is to state goodwill at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually. However, the Directors review internal and external information at the end of each reporting period to identify indication that goodwill may be impaired.

Goodwill of AMR and other business

The Group experienced a delay in debut of the Group's PLC based broadband AMR products given the testing and processing time for the final approval run by the State Grid had taken longer than expected due to the outbreak of COVID-19 pandemic in the PRC in early 2020. This may postpone the Group's participation in certain centralised biddings to be conducted by State Grid as well as certain local biddings in 2020 and hence may lead to a potential loss of market share which may hamper the financial performance of the Group's AMR and other business in the short run. Therefore, the Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. Based on the revised impairment assessment on the goodwill of AMR and other business carried out by the Directors, the Directors determined no impairment loss on the goodwill of AMR and other business would be recorded for the Period under review.

Goodwill of SMIA business

The Directors performed an interim assessment to assess whether the original financial budgets approved for the year ending December 31, 2020 remained appropriate as of June 30, 2020. Key due diligence work performed by the Directors included revisiting the strategic plan of the SMIA business, assessing the project progress and reasonableness of the timing of revenue recognition of the backlog contracts of the SMIA business held as of June 30, 2020, forecasting the sale pipelines conducted by the management of the SMIA business with the expected market development in the medium and long run etc.

The Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit. The Directors determined that no impairment loss on the goodwill of SMIA business would be recorded for the Period under review.

Liquidity and Financial Resources

During the Period under review, the Group's operations were mainly financed by internal resources, including but not limited to existing cash and cash equivalents, cash flow from its operating activities and the net proceeds generated from the listing of shares of the Company (the "Listing") on the Main Board of the Stock Exchange (as defined below) on June 9, 2017. The board of Directors (the "Board") believes that the Group's liquidity needs will be satisfied.

As of June 30, 2020, the Group's current assets amounted to approximately RMB315.6 million (as of December 31, 2019: approximately RMB326.5 million), with cash and cash equivalents totaling approximately RMB114.3 million (as of December 31, 2019: approximately RMB145.1 million). The cash and cash equivalents of the Group are principally held in RMB and USD.

As of June 30, 2020, the Group's total interest-bearing liabilities amounted to approximately RMB260.0 million (as of December 31, 2019: approximately RMB253.2 million), representing promissory notes issued to the vendor in relation to acquisition of Green Harmony Limited ("Green Harmony"), lease liabilities and the Convertible Bonds. All interest-bearing liabilities will be due repayable after one year but within five years (except for current portion of lease liabilities of approximately RMB7.9 million which is payable within one year) with coupon rates range from 4% to 4.75% per annum. The net debt-to-equity ratio (referred as to the gearing ratio: interest-bearing liabilities less cash and cash equivalents divided by total equity) was approximately 86.1% as of June 30, 2020 (as of December 31, 2019: approximately 48.0%).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Exchange rate risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the Period under review and in the corresponding period of 2019, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Capital commitments

As of June 30, 2020, the Group had no material capital commitments (as of December 31, 2019: Nil).

Contingent liabilities

As of June 30, 2020, the Group had no contingent liabilities (as of December 31, 2019: Nil).

Charge on assets

As of June 30, 2020, the Group had no charge on assets (as of December 31, 2019: Nil).

Significant investments

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

CONVERTIBLE BONDS

The Company issued convertible bonds (the "**Convertible Bonds**") with aggregate principal amount of HKD150,000,000 at coupon interest rate of 4% per annum to Software Research Associates, Inc. ("**SRA**"), an independent investor, on August 13, 2018 (the "**Issue Date**"). The aggregated net proceeds from the issue of the Convertible Bonds was approximately HKD146.0 million, and all such proceeds have been fully utilised by the Group. The reason for the issue of the Convertible Bonds was to raise fund to settle the consideration for the acquisition of Green Harmony. The 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. On December 18, 2019, the Company delivered an extension notice to SRA in accordance with the terms and conditions of the Convertible Bonds as set out in the instrument constituting the Convertible Bonds ("**Instrument**") to extend the maturity date from August 13, 2020 to a date falling on 36 months from the Issue Date. Based on the extension notice and the Instrument, the Convertible Bonds will mature on August 13, 2021 and the maturity date shall not be extended further without written approval of the majority holders of the Convertible Bonds and 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 "**Conversion Shares**") with an initial conversion price of HKD2.50 per Conversion Share (the "**Initial Conversion Price**") which is subject to anti-dilutive adjustments arising from such events.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Based on the Adjusted Conversion Price and assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price, the Convertible Bonds will be convertible into 187,500,000 Conversion Shares, representing approximately 19.00% of the issued share capital of the Company as at June 30, 2020 and approximately 15.97% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares, respectively. Assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price and on the basis that the existing number of shares of the Company in issue as at June 30, 2020 remains unchanged as at the date of the conversion, the shareholding of the substantial shareholders of the Company (has the meaning ascribed to it under the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”)) as at June 30, 2020 will be as follows, as to: (i) 16.81% by SB Asia Investment Fund II L.P.; and (ii) 13.25% by Spitzer Fund VI L.P..

The Adjusted Conversion Price represents (i) a discount of approximately 68.0% over the Initial Conversion Price of HK\$2.50 per Conversion Shares; (ii) a premium of approximately 6.67% over the closing price of HK\$0.75 per share of the Company as quoted on the Stock Exchange on June 24, 2020 (the “**Last Trading Day**”); (iii) a premium of approximately 8.11% over the average closing price of HK\$0.74 per share of the Company as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 11.11% over the average closing price of HK\$0.72 per share of the Company as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day.

As the Adjusted Conversion Price represents a less premium to the prevailing market price of the shares of the Company when compared to the Initial Conversion Price of HK\$2.50, the chance of conversion of the Convertible Bonds is less remote and if the Convertible Bonds are converted into shares of the Company, the financial position of the Group will be strengthened with the conversion of debt into equity capital and the pressure on the Company’s liquidity and cash flow can be reduced. The Board expects that there will be a fair value loss on re-measurement of the Convertible Bonds to be recognised in the financial period ending December 31, 2020 arising from the amendment of the conversion price.

Please refer to the announcements of the Company dated July 31, 2018 and August 13, 2018 for further details of the Convertible Bonds and the announcement of the Company dated June 24, 2020 and August 13, 2020 for further details in relation to the Proposed Amendment.

EVENTS AFTER THE REPORTING PERIOD

Details of significant event which would cause material impact on the Group from the end of the Period under review to the date of this report is set out in note 20 to the notes to the unaudited interim financial report.

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS

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

As mentioned in the “Business Review”, the Group experienced a delay in debut of the Group’s PLC based broadband AMR products. As at the date of this report, China Electric Power Research Institute (中國電力科學研究院) has yet to officially issue the certificate letter to endorse the Group’s PLC broadband chipsets and modules which meet the protocol standards of broadband system-on-chip IC promulgated by the State Grid. The Directors expect this certificate could be obtained in the second half of 2020. The Group will use its best endeavor to expedite the release of PLC based broadband products to the market as early as possible and to regain our competitiveness in the AMR industry in China. Although the outbreak of COVID-19 in the PRC brought certain operational risks encountered by the Group in the first half of 2020 but the Directors still expect an official launch of these products in the State Grid market in second half of 2020.

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

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

OTHER INFORMATION

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

As of June 30, 2020, 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 of Hong Kong Limited (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 as of June 30, 2020 (Note 5)
Mr. Yue Jingxing	The Company	Interest in a controlled corporation (Note 2(i))	93,543,624 (L)	9.48%
		Beneficial owner (Note 2(ii))	863,587 (L)	0.09%
Mr. Wang Shiguang	The Company	Interest of spouse (Note 3)	97,527,845 (L)	9.89%
Mr. Tang Andong	The Company	Interest in a controlled corporation (Note 4)	31,302,500 (L)	3.17%

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of the Company ("Shares").
- (2) Mr. Yue Jingxing is the sole shareholder of Seashore Fortune Limited ("Seashore Fortune") which holds 93,543,624 Shares. By virtue of the SFO, Mr. Yue Jingxing 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 adopted by the Company on August 25, 2016 (the "Pre-IPO Share Option Scheme").
- (3) All of these Shares were held by Ms. Chen Junling. Mr. Wang Shiguang, a non-executive director of the Company 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) All of these Shares were held by Sailen International IOT Limited, which is in turn owned as to 50% by Mr. Tang Andong. By virtue of the SFO, Mr. Tang Andong is deemed to be interested in the Shares in which Sailen International IOT Limited is interested.
- (5) The percentage represents the number of Shares/underlying Shares involved divided by the number of issued Shares as of June 30, 2020. The total issued shares of the Company was 986,619,071 Shares as of June 30, 2020.

Save as disclosed above, as of June 30, 2020, 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.

OTHER INFORMATION *(continued)*

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

As of June 30, 2020, 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 as at June 30, 2020 (Note 8)
Seashore Fortune	Beneficial owner	93,543,624 (L)	9.48%
Ms. Chen Junling	Interest in a controlled corporation (Note 2)	97,527,845 (L)	9.89%
Magical Success Holdings Limited ("Magical Success")	Beneficial owner (Note 2)	97,527,845 (L)	9.89%
SB Asia Investment Fund II L.P. ("SAIF")	Beneficial owner (Notes 3 & 4)	197,340,537 (L) (Note 7)	20.00%
SAIF II GP L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 7)	20.00%
SAIF Partners II L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 7)	20.00%
SAIF II GP Capital Ltd.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 7)	20.00%
Mr. Andrew Y. Yan	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 7)	20.00%
Cisco System, Inc	Interest in a controlled corporation (Note 4)	197,340,537 (L) (Note 7)	20.00%
Software Research Associates, Inc. ("SRA")	Beneficial owner (Notes 5 & 6)	187,500,000(L) (Note 7)	19.00%
SRA Holdings, Inc. ("SRA Holdings")	Interest in a controlled corporation (Notes 5 & 6)	187,500,000(L) (Note 7)	19.00%
Spitzer Fund VI L.P.	Beneficial owner	155,575,000 (L) (Note 7)	15.77%

OTHER INFORMATION *(continued)*

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) These 187,500,000 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 HK\$150,000,000 at the adjusted conversion price of HK\$0.80 per conversion share. The exercise of the conversion rights attaching to the Convertible Bonds is subject to the terms and conditions thereof.
- (6) SRA is wholly owned by SRA Holdings. By virtue of the SFO, SRA Holdings is deemed to be interested in the Shares in which SRA is interested.
- (7) Based on the disclosure of interests forms submitted by these substantial shareholders respectively as of June 30, 2020.
- (8) The percentage represents the number of Shares/underlying Shares involved divided by the number of the issued Shares as of June 30, 2020. The total issued shares of the Company was 986,619,071 Shares as of June 30, 2020.

Save as disclosed above, as of June 30, 2020, 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.

OTHER INFORMATION *(continued)*

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 and consultants of the Group are eligible to participate in the Share Option Scheme. The Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

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

Employees

Date of grant	Exercisable period	Outstanding as at December 31, 2019	Exercise Price per Share HK\$	During the Period under review				Outstanding as at June 30, 2020
				Granted	Exercised	Cancelled	Lapsed	
September 3, 2018	From September 3, 2018 to September 2, 2026	1,125,000	1.71	-	-	-	-	1,125,000
September 3, 2018	From September 3, 2020 to September 2, 2026	4,201,669	1.71	-	-	-	(186,667)	4,015,002
September 3, 2018	From September 3, 2021 to September 2, 2026	4,201,669	1.71	-	-	-	(186,667)	4,015,002
September 3, 2018	From September 3, 2022 to September 2, 2026	4,201,662	1.71	-	-	-	(186,666)	4,014,996
Total		13,730,000		-	-	-	(560,000)	13,170,000

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 Period under review. 560,000 share options lapsed as an employee resigned during the exercisable period as specified.

As at June 30, 2020, the total number of shares available for issue under the Share Option Scheme was 66,830,000, representing approximately 6.77% of the Company’s issued share capital at June 30, 2020, and the remaining life of the Share Option Scheme was approximately 7 years.

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

OTHER INFORMATION *(continued)*

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 Capitalisation 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.

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

Directors

Name of Directors	Date of grant	Exercisable period	Outstanding as at December 31, 2019	Exercise Price per Share (Note 1) USD	During the Period under review				Outstanding as at June 30, 2020
					Granted	Exercised	Cancelled	Lapsed	
Mr. Yue Jingxing	August 25, 2016	From August 25, 2016 to March 25, 2024	863,587	0.0003	-	-	-	-	863,587
	Total		863,587		-	-	-	-	863,587

Note:

- (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 Period under review.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period under review.

OTHER INFORMATION *(continued)*

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code during the Period under review except for deviation from code provision E.1.2 of the CG Code as summarized below:

Pursuant to code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. On the annual general meeting of the Company held on June 15, 2020, Mr. Cheung Fan, who is the chairman of the Board and the nomination committee, was unable to attend the annual general meeting of the Company due to other business engagement. However, Mr. Lau Wai Leung, Alfred, the then executive director of the Company, took the chair of that meeting and Ms. Lo Wan Man, a member of the nomination committee, attended that meeting to answer questions.

The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

OTHER INFORMATION *(continued)*

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Directors' biographical details during the period from the date of the Annual Report 2019 to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of change
Mr. Lau Wai Leung, Alfred	<p>Mr. Lau resigned as an executive director of the Company on June 24, 2020 due to his other work commitments.</p> <p>With effect from July 3, 2020, Mr. Lau has been appointed as the company secretary and authorised representative of the Company.</p>
Mr. Yue Jingxing	<p>Mr. Yue has ceased to act as the chief executive officer ("CEO") of the Company with effect from June 24, 2020 due to work allocation.</p>
Mr. Ong King Keung	<p>Mr. Ong resigned as a company secretary and authorised representative of China Overseas Nuoxin International Holdings Limited (stock code: 464), the shares of which are listed on the Main Board of the Stock Exchange, on May 27, 2020.</p>

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

USE OF PROCEEDS

References are made to the announcements of the Company dated June 8, June 21, 2017 and July 3, 2019. The aggregated net proceeds from the global offering of the shares of the Company in connection with the Listing and exercise of the over-allotment option by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (as defined in the Prospectus)) was approximately HK\$158.2 million. Proposed application of net proceeds as stated in the Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

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

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

OTHER INFORMATION *(continued)*

From Initial Global Offering

	Original planned use of net proceeds HK\$'million	Reallocation on July 3, 2019 HK\$'million	Amount utilised as at June 30, 2020 HK\$'million	Unutilised net proceeds as at June 30, 2020 HK\$'million
Research and development of the PLC technology	95.7	(37.8)	41.5	16.4
Sales and marketing	32.0	(6.9)	10.7	14.4
Repayment of an entrusted bank loan	14.7	–	14.7	–
Working capital and general corporate purposes	15.8	–	15.8	–
Repayment of interest expenses	–	44.7	24.7	20
	158.2	–	107.4	50.8

As of the date of this report, the Company does not anticipate any change to the above plan of use of proceeds. The Company previously anticipated that the above use of proceeds was expected to be fully utilised on or before December 31, 2020, however, due to an implementation of tightened cost control measures adopted by the Group, the remaining unutilised net proceeds as at June 30, 2020 are expected to be fully utilised on or before December 31, 2021.

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 of June 30, 2020, the Group had an aggregate of 198 employees (as of December 31, 2019: 221 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 prevailing market salary scale.

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

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL RESULTS

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Note	Six months ended June 30,	
		2020 RMB'000	2019 RMB'000
Revenue	4	37,172	89,621
Cost of sales		(25,298)	(68,824)
Gross profit		11,874	20,797
Other income	5	3,324	12,109
Sales and marketing expenses		(7,975)	(18,110)
General and administrative expenses		(52,410)	(45,393)
Research and development expenses		(11,043)	(15,910)
Loss from operations		(56,230)	(46,507)
Finance costs	6(a)	(5,192)	(401)
Share of (loss)/profit of associate		(16)	9
Fair value (losses)/gains on financial instruments at fair value	6(b)	(5,954)	7,138
Loss before taxation	6	(67,392)	(39,761)
Income tax credit/(expense)	7	10,974	(1,040)
Loss for the period		(56,418)	(40,801)
Attributable to:			
— Equity shareholders of the Company		(56,418)	(40,801)
— Non-controlling interests		—	—
Loss for the period		(56,418)	(40,801)
Loss per share	8		
Basic (RMB cents)		(5.71)	(4.94)
Diluted (RMB cents)		(5.71)	(5.55)

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Loss for the period	(56,418)	(40,801)
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China	(1,008)	138
Total comprehensive income for the period	(57,426)	(40,663)
Attributable to:		
— Equity shareholders of the Company	(57,426)	(40,663)
— Non-controlling interests	—	—
Total comprehensive income for the period	(57,426)	(40,663)

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2020 — unaudited
(Expressed in Renminbi)

	Note	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Non-current assets			
Property, plant and equipment		26,816	28,539
Intangible assets	10	162,196	180,452
Right-of-use assets	9	14,101	18,003
Goodwill	11	43,974	43,974
Interest in associate		380	396
Deferred tax assets		28,630	20,692
		276,097	292,056
Current assets			
Inventories	12	33,931	25,697
Contract costs		95,328	29,120
Trade and other receivables	13	71,525	126,216
Restricted bank deposits		470	326
Cash and cash equivalents		114,345	145,110
		315,599	326,469
Current liabilities			
Trade and other payables	14	59,225	78,312
Contract liabilities		53,131	9,656
Lease liabilities		7,913	7,797
Income tax payable		8,923	6,042
		129,192	101,807
Net current assets		186,407	224,662
Total assets less current liabilities		462,504	516,718

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At June 30, 2020 — unaudited
(Expressed in Renminbi)

	Note	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Non-current liabilities			
Acquisition consideration payables	15	125,994	118,814
Convertible bonds	16	119,452	116,196
Lease liabilities		6,659	10,360
Deferred tax liabilities		37,014	41,369
Deferred income		4,154	4,834
		293,273	291,573
Net assets			
		169,231	225,145
Capital and reserves			
	18		
Share capital		86	86
Reserves		169,145	225,059
Total equity			
		169,231	225,145

Approved and authorised for issue by the Board of Directors on August 28, 2020.

Yue Jingxing
Director

Tang Andong
Director

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Capital reserve	PRC statutory reserves	Exchange reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2019	71	167,037	132,102	21,835	12,223	67,518	400,786
Changes in equity for the six months ended June 30, 2019:							
Loss for the period	–	–	–	–	–	(40,801)	(40,801)
Other comprehensive income	–	–	–	–	138	–	138
Total comprehensive income	–	–	–	–	138	(40,801)	(40,663)
Equity-settled share-based payments	–	–	1,970	–	–	–	1,970
Appropriation to reserves	–	–	–	455	–	(455)	–
Issue of ordinary shares under share option plan	1	2,889	(2,866)	–	–	–	24
Issue of shares upon settlement of contingent consideration	1	8,803	–	–	–	–	8,804
Balance at June 30, 2019	73	178,729	131,206	22,290	12,361	26,262	370,921

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total equity RMB'000
Balance at July 1, 2019	73	178,729	131,206	22,290	12,361	26,262	370,921
Changes in equity for the six months ended December 31, 2019:							
Loss for the period	-	-	-	-	-	(196,012)	(196,012)
Other comprehensive income	-	-	-	-	(3,818)	-	(3,818)
Total comprehensive income	-	-	-	-	(3,818)	(196,012)	(199,830)
Equity-settled share-based payments	-	-	1,408	-	-	-	1,408
Appropriation to reserves	-	-	-	36	-	(36)	-
Placing of shares	13	52,633	-	-	-	-	52,646
Balance at December 31, 2019	86	231,362	132,614	22,326	8,543	(169,786)	225,145

The notes on pages 28 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
				statutory reserves RMB'000			
Balance at January 1, 2020	86	231,362	132,614	22,326	8,543	(169,786)	225,145
Changes in equity for the six months ended June 30, 2020:							
Loss for the period	-	-	-	-	-	(56,418)	(56,418)
Other comprehensive income	-	-	-	-	(1,008)	-	(1,008)
Total comprehensive income	-	-	-	-	(1,008)	(56,418)	(57,426)
Equity-settled share-based payments	-	-	1,512	-	-	-	1,512
Appropriation to reserves	-	-	-	392	-	(392)	-
Balance at June 30, 2020	86	231,362	134,126	22,718	7,535	(226,596)	169,231

The notes on pages 28 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2020 — unaudited
(Expressed in Renminbi)

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Operating activities:		
Cash used in operations	(27,957)	(5,352)
Income tax received/(paid)	1,575	(4,877)
Net cash used in operating activities	(26,382)	(10,229)
Investing activities:		
Payment for acquisition of subsidiaries	—	(101,026)
Proceeds from maturity of wealth management products	—	10,000
Payment for purchase of property, plant and equipment and intangible assets	(467)	(1,224)
Interest received	1,682	1,183
Expenditure on development cost	—	(189)
Other cash flows arising from investing activities	75	38
Net cash generated from/(used in) investing activities	1,290	(91,218)
Financing activities:		
Payment for interest of convertible bonds	(2,698)	(2,643)
Capital element of lease rentals paid	(3,649)	(2,397)
Interest element of lease rentals paid	(393)	(276)
Cash received from investors for share subscription	—	24
Net cash used in financing activities	(6,740)	(5,292)
Net decrease in cash and cash equivalents	(31,832)	(106,739)
Effect of foreign exchange rate changes	1,067	(6)
Cash and cash equivalents at January 1	145,110	267,037
Cash and cash equivalents at June 30	114,345	160,292

The notes on pages 28 to 46 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on August 19, 2015 as an exempted company with limited liabilities under Companies Law, (Cap 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 9, 2017.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised by the Board for issue on August 28, 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied Amendment to HKFRS 16, Covid-19-Related Rent Concessions issued by the HKICPA to these financial statements for the current accounting period.

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

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

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. COVID-19 related rent concessions for the six months ended June 30, 2020 was RMB92,000. There is no impact on the opening balance of equity at January 1, 2020.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

The Group is principally engaged in the design, development and sale of PLC products as well as the provision of relevant maintenance services in connection with the deployment and upgrades of automated meter reading (“**AMR**”) systems by power grid companies in the People’s Republic of China (“**PRC**”) and for a wide range of applications related to energy saving and environmental protection.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Disaggregation of revenue *(Continued)*

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products of service lines		
AMR business		
— PLC Integrated circuits ("ICs")	5,141	14,878
— PLC modules	540	15,197
— Other AMR products	5,965	29,255
— AMR maintenance services	4,761	6,771
Sub-total of AMR and other business	16,407	66,101
SMIA business		
— Software license	12,260	14,190
— Production safety products	6,578	3,035
Sub-total of SMIA business	18,838	17,225
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products of service lines		
SMIA business		
— Post-contract customer support service	1,927	6,295
Sub-total of SMIA business	1,927	6,295
Total	37,172	89,621

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(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 has presented the following two reportable segments during the period.

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

(i) Segment results, assets and liabilities

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

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

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

	Six months ended June 30, 2020		
	AMR and other business RMB'000	SMIA business RMB'000	Total RMB'000
Reportable segment revenue	16,407	20,765	37,172
Reportable segment cost of sales	(12,011)	(13,287)	(25,298)
Reportable segment sales and marketing expenses	(5,552)	(2,423)	(7,975)
Reportable segment research and development expenses	(8,887)	(2,156)	(11,043)
Reportable segment (loss)/profit	(10,043)	2,899	(7,144)

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Reportable segment loss	(7,144)	(13,223)
Other income	3,324	12,109
General and administrative expenses	(52,410)	(45,393)
Finance costs	(5,192)	(401)
Share of (loss)/profit of associate	(16)	9
Fair value (losses)/gains on financial instruments at fair value	(5,954)	7,138
Loss before taxation	(67,392)	(39,761)

(iii) Information about geographical area

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets. For the six months ended June 30, 2020 and 2019, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were located in the PRC.

5 OTHER INCOME

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Interest income from bank deposits	1,682	1,020
Government grants		
— Unconditional subsidies	1,756	7,355
— Conditional subsidies	680	888
Net exchange (loss)/gain	(676)	710
Others	(118)	2,136
	3,324	12,109

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Interest expense on promissory notes	4,799	125
Interest expense on lease liabilities	393	276
	5,192	401

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Gain on final settlement of contingent share consideration	–	(14,521)
Change in fair value of contingent consideration notes payable	–	15,842
Change in fair value of convertible bonds (note 16)	5,954	(8,360)
Change in fair value of financial investments at fair value through profit or loss	–	(99)
	5,954	(7,138)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

6 LOSS BEFORE TAXATION *(Continued)*

(c) Other items

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Cost of inventories	18,345	56,199
Cost of software license sold	7,323	8,229
Cost of post-contract customer support	1,350	4,838
Depreciation of property, plant and equipment	1,994	1,956
Depreciation of right-of-use assets	3,966	2,515
Amortisation of intangible assets	18,256	17,915
Impairment losses of trade receivables	17,523	8,148

7 INCOME TAX (CREDIT)/EXPENSE

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Current tax:		
Provision for current income tax for the period	1,319	1,513
Deferred tax:		
Origination and reversal of temporary differences	(12,293)	(473)
	(10,974)	1,040

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Loss before taxation	(67,392)	(39,761)
Notional tax credit on loss before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	(12,431)	(10,000)
Tax effect of preferential tax rate	1,058	–
Tax effect of non-deductible expenses	155	426
Additional deduction for qualified research and development costs (ii)	(770)	(2,092)
Over-provision in prior years	–	(60)
Write-off of deferred tax assets recognised in previous years	–	6,082
Tax effect of other temporary differences not recognised (iii)	247	1,492
Tax effect of unused tax losses not recognised (iii)	930	5,510
Tax effect of unrecognised tax losses utilised	(163)	(318)
Actual income tax (credit)/expense	(10,974)	1,040

(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, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. 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 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 June 30, 2019, the tax rate used to recognise deferred tax assets and liabilities expected to be utilised after the year 2019 was changed to 25% as at June 30, 2019. The renewal of High and New Technology Enterprise qualification was approved in December 9, 2019 with an effective period of another three years starting from 2019, and therefore the tax rate used to recognise deferred tax assets and liabilities as at June 30, 2020 was 15%.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

- (b) Reconciliation between actual income tax credit and accounting loss at applicable tax rates: *(Continued)*
- (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 2020 (2019: 75%).
 - (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 recognised for tax losses and other deductible temporary differences of certain loss-making PRC entities.

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on loss attributable to ordinary equity shareholders of the Company of RMB56,418,000 (six months ended June 30, 2019: loss attributable to ordinary equity shareholders of the Company of RMB40,801,000) and the weighted average of 987,482,658 ordinary shares in issue during the six months ended June 30, 2020 (six months ended June 30, 2019: 825,100,010 shares), calculated as follows.

(i) Weighted average number of ordinary shares

	Six months ended June 30,	
	2020	2019
Shares issued on January 1	986,619,071	811,247,421
Effect of equity-settled share options exercised	–	11,436,824
Effect of vested equity-settled share options	863,587	863,587
Effect of shares issued as consideration for acquisition of North Mountain Information Technology Company Limited	–	1,552,178
Weighted average number of shares	987,482,658	825,100,010

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

8 LOSS PER SHARE *(Continued)*

(b) Diluted loss per share

The calculation of diluted loss per share is based on loss attributable to ordinary equity shareholders of the Company of RMB56,418,000 (six months ended June 30, 2019: loss attributable to ordinary equity shareholders of the Company of RMB49,161,000) and the weighted average of 987,482,658 shares for the six months ended June 30, 2020 (six months ended June 30, 2019: 885,100,010 shares), calculated as follows:

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Loss attributable to ordinary equity shareholders (basic)	(56,418)	(40,801)
After tax effect of gain on fair value changes of convertible bonds (note 6(b))	–	(8,360)
Loss attributable to ordinary equity shareholders (diluted)	(56,418)	(49,161)

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

	Six months ended June 30,	
	2020	2019
Weighted average number of ordinary shares at June 30 (basic)	987,482,658	825,100,010
Effect of conversion of convertible bonds	–	60,000,000
Weighted average number of ordinary shares at June 30 (diluted)	987,482,658	885,100,010

The computation of diluted loss per share for the six months ended June 30, 2020 does not assume the conversion of the Company's convertible bonds since its exercise had anti-dilutive effect that would result in a decrease in loss per share for the six months ended June 30, 2020.

9 RIGHT-OF-USE ASSETS

As disclosed in note 3, the Group has early adopted the Amendment to HKFRS 16, Leases, Covid-19-Related Rent Concessions, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

During the six months ended June 30, 2020, the Group had not entered into any new significant lease agreement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

10 INTANGIBLE ASSETS

	Software RMB'000	Capitalised development costs RMB'000	Non- compete undertakings RMB'000	Customer relationship RMB'000	Unfulfilled contracts RMB'000	Total RMB'000
Cost:						
At January 1, 2019	10,907	9,323	100,147	99,380	22,264	242,021
Additions	953	1,706	–	–	–	2,659
At December 31, 2019 and January 1, 2020	11,860	11,029	100,147	99,380	22,264	244,680
Additions	–	–	–	–	–	–
At June 30, 2020	11,860	11,029	100,147	99,380	22,264	244,680
Accumulated depreciation:						
At January 1, 2019	(6,235)	–	(5,949)	(5,875)	(8,599)	(26,658)
Charge for the year	(1,667)	–	(14,726)	(12,652)	(8,525)	(37,570)
At December 31, 2019 and January 1, 2020	(7,902)	–	(20,675)	(18,527)	(17,124)	(64,228)
Charge for the period	(843)	–	(7,363)	(6,326)	(3,724)	(18,256)
At June 30, 2020	(8,745)	–	(28,038)	(24,853)	(20,848)	(82,484)
Net book value:						
At June 30, 2020	3,115	11,029	72,109	74,527	1,416	162,196
At December 31, 2019	3,958	11,029	79,472	80,853	5,140	180,452

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

11 GOODWILL

	AMR and other business CGU RMB'000	SMIA business CGU RMB'000	Total RMB'000
Cost:			
At January 1, 2019, December 31, 2019, January 1, 2020 and June 30, 2020	37,936	177,211	215,147
Accumulated impairment losses:			
At January 1, 2019	–	–	–
Impairment loss recognized	(14,680)	(156,493)	(171,173)
At December 31, 2019, January 1, 2020 and June 30, 2020	(14,680)	(156,493)	(171,173)
Carrying amount:			
At June 30, 2020	23,256	20,718	43,974
At December 31, 2019	23,256	20,718	43,974

Goodwill of AMR and other business

The Group experienced a delay in debut of the Group's PLC based broadband AMR products given the testing and processing time for the final approval run by the State Grid had taken longer than expected due to the outbreak of the coronavirus (COVID-19) pandemic in the PRC in early 2020. This may postpone the Group's participation in certain centralised biddings to be conducted by State Grid as well as certain local biddings in 2020 and hence may lead to a potential loss of market share which may hamper the financial performance of the Group's AMR and other business in the short run. Therefore, the Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. The recoverable amount of the CGU has been determined based on value-in-use calculation. This calculation uses cash flow projections based on revised financial budgets approved by the Directors.

The Directors determined no impairment loss on the goodwill of AMR and other business would be recorded for the six months ended June 30, 2020.

Goodwill of SMIA business

The Directors performed an interim assessment to assess whether the original financial budgets approved for the year ending December 31, 2020 remained appropriate as at June 30, 2020. The Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit. The Directors determined that no impairment loss on the goodwill of SMIA business would be recorded for the six months ended June 30, 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

12 INVENTORIES

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

	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Raw materials	19,810	17,370
Work in progress	2,543	2,233
Finished goods	34,176	27,590
	56,529	47,193
Provision for diminution in value of inventories	(22,598)	(21,496)
	33,931	25,697

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

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	16,625	62,670
Write down of inventories	1,102	6,154
Cost of inventories directly recognised as research and development expenses	618	442
	18,345	69,266

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

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

	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Within 6 months	14,036	43,780
After 6 months but within 1 year	19,347	14,292
After 1 year	90,508	94,462
Trade receivables	123,891	152,534
Loss allowance	(73,691)	(56,168)
Trade receivables, net of loss allowance	50,200	96,366
Bills receivables	5,944	9,951
Prepayments	10,031	7,949
Income tax recoverable	242	242
Other receivables	5,108	11,708
Total trade and other receivables, net	71,525	126,216

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

14 TRADE AND OTHER PAYABLES

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

	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Within 3 months	14,884	51,428
After 3 months but within 6 months	13,315	3,059
After 6 months but within 1 year	21,716	5,819
Over 1 year but within 2 years	3,993	6,288
Over 2 years	2,210	–
Total trade payables	56,118	66,594
Product warranty provision	618	1,701
Other payables and accruals	2,489	10,017
Total trade and other payables	59,225	78,312

15 ACQUISITION CONSIDERATION PAYABLES

	At June 30, 2020 RMB'000	At December 31, 2019 RMB'000
Acquisition of Green Harmony — Promissory note payable	125,994	118,814
Representing: — Amounts payable after 1 year but within 2 years	125,994	118,814

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

16 CONVERTIBLE BONDS

	2020 RMB'000	2019 RMB'000
Balance as at January 1	116,196	120,502
Payment for interest of convertible bonds	(2,698)	(5,314)
Re-measurement on convertible bonds	5,954	1,008
Balance at June 30/December 31	119,452	116,196

On August 13, 2018 (“**Issue Date**”), the Group issued convertible bonds to an independent third party (the “**Holder**”) 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**”). In 2019, the Group has exercised the extension right by serving an extension notice to the Holder in accordance with terms and conditions of the convertible bonds. As a result, the Maturity Date has been changed to August 13, 2021.

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

The convertible bonds can be converted into ordinary shares of the Company at the holder’s option at an initial conversion price of HKD2.50 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.

On June 24, 2020 (after trading hours), the Company entered into the amendment agreement with Software Research Associates, Inc., pursuant to which, the Company and Software Research Associates, Inc. conditionally agreed to amend the conversion price under the convertible bonds from the initial conversion price of HK\$2.50 per conversion share to the adjusted conversion price of HK\$0.80 per conversion share. After fulfilling all the conditions precedent set out in the amendment agreement, including the grant of approval by the Stock Exchange, the Company executed the supplemental deed of the instrument constituting the convertible bonds on August 13, 2020, and the conversion price be amended to HK\$0.80 per share with effect from August 13, 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

16 CONVERTIBLE BONDS *(Continued)*

The entire convertible bonds are designated as financial liabilities at fair value through profit or loss since inception date.

Fair value of the Group's convertible bonds was determined by using partial differential equation method with the following key inputs:

	As at June 30, 2020	As at December 31, 2019	On inception date
Risk free rates	0.24%	1.77%	1.87%
Discount rate	19.94%	19.18%	18.40%
Dividend yield	0.56%	0.58%	0.95%
Expected volatility	52.37%	50.29%	57.28%

17 EQUITY-SETTLED SHARE-BASED TRANSACTION

The number and weighted average exercise prices of equity-settled share options issued by the Group are as follows:

	At June 30, 2020		At December 31, 2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	USD0.0003	863,587	USD0.0003	12,300,411
Outstanding at the beginning of the year	HKD1.71	13,730,000	HKD1.71	15,500,000
Exercised during the period/year	–	–	USD0.0003	(11,436,824)
Forfeited during the period/year	HKD1.71	(560,000)	HKD1.71	(1,770,000)
Outstanding at the end of the period/year	USD0.0003	863,587	USD0.0003	863,587
Outstanding at the end of the period/year	HKD1.71	13,170,000	HKD1.71	13,730,000
Exercisable at the end of the period/year	USD0.0003	863,587	USD0.0003	863,587
Exercisable at the end of the period/year	HKD1.71	1,125,000	HKD1.71	1,125,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi unless otherwise indicated)

18 CAPITAL AND RESERVES

(a) Dividends

The Board of Directors did not recommend the payment of an interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: Nil).

(b) Share capital

(i) Authorised and issued shares capital

	Par value HK\$	No. of shares '000	HK\$ '000
Authorised shares at June 30, 2020:			
Ordinary shares, issued and fully paid			
At January 1, 2019	0.0001	811,247	81
Issue of shares under share option plan	0.0001	11,437	1
Issue of shares upon settlement of contingent consideration	0.0001	16,435	2
At July 1, 2019	0.0001	839,119	84
Placing of shares	0.0001	147,500	15
At December 31, 2019, January 1, 2020 and June 30, 2020	0.0001	986,619	99
RMB equivalent ('000)			86

19 RELATED PARTY TRANSACTIONS

	Six months ended June 30,	
	2020 RMB'000	2019 RMB'000
Recurring transactions:		
Properties premises rental expenses paid to		
Wang Shiguang, a director of the Company	712	724

20. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After fulfilling all the conditions precedent set out in the amendment agreement dated June 24, 2020 and entered into between the Company and Software Research Associates, Inc., including the grant of approval by the Stock Exchange, the conversion price under the convertible bonds has been amended from the initial conversion price of HK\$2.50 per conversion share to the adjusted conversion price of HK\$0.80 per conversion share with effect from August 13, 2020. The Board expects that there will be a fair value loss on re-measurement of the convertible bonds to be recognised in the financial period ending December 31, 2020 arising from the amendment of the conversion price.