RISECOMM
瑞斯康

RISECOMM GROUP HOLDINGS LIMITED
瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1679)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB212.7 million (2019: approximately RMB218.6 million), representing a decrease of approximately 2.7%.
- Revenue from Automated Meter Reading ("**AMR**") and other business segment decreased by approximately 60.9% to approximately RMB54.7 million as compared with the corresponding period in 2019.
- Revenue from Smart Manufacturing & Industrial Automation ("**SMIA**") business segment increased by approximately 100.8% to approximately RMB158.0 million as compared with the corresponding period in 2019.
- Net loss for the year attributable to equity shareholders of the Company amounted to approximately RMB126.0 million (2019: net loss attributable to equity shareholders of the Company approximately RMB236.8 million).
- Basic loss per share for the year amounted to approximately RMB12.77 cents (2019: basic loss per share approximately RMB27.56 cents).
- The Board did not recommend the payment of a final dividend for the year ended December 31, 2020.

The board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2020 (the "**year under review**"), together with the comparative figures for the corresponding period in 2019 or other dates/periods as set out in this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020** *RMB'000*	2019 *RMB'000*
Revenue	*4*	**212,734**	218,575
Cost of sales		**(179,200)**	(153,800)
Gross profit		**33,534**	64,775
Other income, gains/(losses)	*5*	**8,052**	11,364
Allowance for impairment losses on financial assets, net		**(27,940)**	(21,442)
Selling and marketing expenses		**(19,131)**	(31,147)
General and administrative expenses		**(77,184)**	(73,703)
Research and development expenses		**(21,712)**	(31,639)
Loss from operations		**(104,381)**	(81,792)
Impairment losses of goodwill		**(23,256)**	(171,173)
Finance costs	*7*	**(9,928)**	(3,245)
Share of results of an associate		**25**	(50)
Fair value (losses)/gains on financial instruments at fair value	*8*	**(15,442)**	5,635
Loss before tax		**(152,982)**	(250,625)
Income tax credit	*9*	**26,948**	13,812
Loss for the year attributable to owners of the Company		**(126,034)**	(236,813)
Loss per share attributable to owners of the Company			
Basic and diluted *(RMB cents)*	*12*	**(12.77)**	(27.56)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020**	2019
		RMB'000	*RMB'000*
Loss for the year		**(126,034)**	(236,813)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside mainland China		**12,926**	(3,680)
Total comprehensive loss for the year		**(113,108)**	(240,493)
Attributable to:			
Owners of the Company		**(113,108)**	(240,493)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**24,330**	28,539
Right-of-use assets		**14,218**	18,003
Goodwill	*13*	**20,718**	43,974
Intangible assets		**141,540**	180,452
Interest in an associate		**42**	396
Deferred tax assets		**35,915**	20,692
Total non-current assets		**236,763**	292,056
Current assets			
Inventories		**22,501**	25,697
Contract costs		**5,831**	29,120
Trade and other receivables	*14*	**131,585**	126,216
Restricted bank deposits		**–**	326
Bank and cash balances		**121,669**	145,110
Total current assets		**281,586**	326,469
TOTAL ASSETS		**518,349**	618,525
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**86**	86
Reserves		**114,255**	225,059
Total equity		**114,341**	225,145

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	**2020**	2019
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Acquisition consideration payables		**–**	118,814
Convertible bonds		**–**	116,196
Deferred income		**2,985**	4,834
Lease liabilities		**10,238**	10,360
Deferred tax liabilities		**33,662**	41,369
Total non-current liabilities		**46,885**	291,573
Current liabilities			
Trade and other payables	*15*	**79,445**	78,312
Contract liabilities		**31,133**	9,656
Lease liabilities		**4,488**	7,797
Acquisition consideration payables		**120,520**	–
Convertible bonds		**119,076**	–
Income tax payables		**2,461**	6,042
Total current liabilities		**357,123**	101,807
TOTAL EQUITY AND LIABILITIES		**518,349**	618,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting period reflected in these consolidated financial statements.

The Group incurred a net loss of approximately RMB126,034,000 during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB75,537,000. Its current acquisition consideration payables, convertible bonds and lease liabilities amounted to approximately RMB120,520,000, approximately RMB119,076,000 and approximately RMB4,488,000 respectively while its cash and cash equivalents amounted to approximately RMB121,669,000 only. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors have taken the following measures:

(a) The Group will be able to obtain the new equity financing:

On 25 January 2021, the Company entered into a conditional subscription agreement (the "**Subscription agreement**") with Sailen International IOT Limited ("**Sailen IOT**") that Sailen IOT conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 403,000,000 shares at the subscription price at HK$0.24 for an aggregate amount of approximately HK$96,000,000 after deducting the professional fees and other related expenses. The amount will be off set against the outstanding principal of the promissory notes relating to the acquisition of Green Harmony Limited ("**Green Harmony**").

On 25 January 2021, the Company entered into a conditional placing agreement with Kingkey Securities Group Limited ("**Kingkey**") that Kingkey has conditionally agreed to procure not less than six independent placees to subscribe for up to 347,000,000 shares at a price of HK$0.24 for an aggregate amount of approximately HK$82,500,000 after deducting professional fees and other related expenses. The proceeds intended to be partially used for full settlement of the remaining outstanding principal of the promissory notes to the vendor of Green Harmony and the remaining part will be used for general working capital purpose;

The Company is currently in progress of finalising the circular in relation to the conditional subscription agreement and the conditional placing agreement described above. Details were disclosed in the announcements of the Company dated 25 January 2021, 11 February 2021 and 2 March 2021.

If the above conditional share subscription and/or share placing could not be completed, the Company will negotiate with Sailen IOT on other arrangements.

Saved as disclosed above, the Company is also considering for further fund raising by way of equity financing.

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

(c) The Group will negotiate with convertible bond holder for the extension of repayment date.

The directors have reviewed the Group's cashflow projections prepared by the management. The cash flow projection cover a period of not less than twelve months from 31 December 2020. Having taken into account the above-mentioned plans and measures, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due within the next twelve months from the date of the consolidated statement of financial position. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

However, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. As of the date of approval of the consolidated financial statements, the conditional share subscription and share placing have not been completed and the plan for the further fund raising by way of equity financing has not yet been commenced. The COVID-19 pandemic and trade disputes between the PRC and the United States create economic uncertainties which may negatively impact management's ability to successfully implement its operation plans. Negotiations with the bondholder to extend the maturity date of the convertible bond due 13 August 2021 have not yet been entered into.

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

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

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(i) Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the Amendments had no material impact on the consolidated financial statement.

(ii) 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 year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

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

Other than the amendments to HKFRS 16, COVID-19 Related Rent Concessions, the Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020.

These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendment to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform — Phase 2*	1 January 2021
Amendments to HKFRS 3 *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16 *Property, plant and equipment: proceeds before intended use*	1 January 2022
Amendments to HKAS 37 *Onerous contracts — cost of fulfilling a contract*	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1 *Classification of liabilities as current or non-current*	1 January 2023

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

4. REVENUE

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

Upon the acquisition of Green Harmony Limited in August 2018, the Group is also engaged in the sale of software license, production safety products, construction contracts as well as the provision of software post-contract customer support services in connection with the SMIA applied in the area of maintenance and safety integrity system in the petroleum and petrochemicals industry.

(a) Disaggregation of revenue

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

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products or service lines:		
AMR and other business		
— PLC Integrated circuits ("**ICs**")	**13,592**	32,224
— PLC Modules	**4,786**	27,164
— Collectors	**306**	1,818
— Other products	**20,400**	56,026
— AMR maintenance services	**15,614**	22,594
Sub-total of AMR and other business	**54,698**	139,826

	2020	2019
	RMB'000	*RMB'000*
SMIA business		
— Software license	**32,090**	41,205
— Production safety products	**22,496**	26,537
Sub-total of SMIA business	**54,586**	67,742
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products or service lines:		
— Post-contract customer support service	**4,551**	11,007
— Construction contracts	**98,899**	–
Sub-total of SMIA business	**103,450**	11,007
Total	**212,734**	218,575

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 and the expected timing of recognising revenue as follows:

	Software license		**Post-contract customer support service**	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**22,766**	30,940	**2,668**	3,853
More than one year but not more than two years	**18,679**	22,766	**2,075**	2,668
More than two years	**15,566**	34,245	**1,730**	3,805
	57,011	87,951	**6,473**	10,326

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for software license and post-contract customer support service such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for software license and post-contract customer support service that had an original expected duration of between one to four years.

5. OTHER INCOME, GAINS/(LOSSES)

	2020	2019
	RMB'000	*RMB'000*
Interest income from bank deposits	**2,523**	1,829
Government grant		
— Unconditional subsidies *(note (a))*	**2,811**	8,181
— Conditional subsidies *(note (b))*	**2,005**	1,900
Loss on disposals of property, plant and equipment	**(45)**	(281)
Net foreign exchange gains/(loss)	**152**	(663)
Rental income	**211**	–
COVID-19 rental concession	**248**	–
Gain on lease modification	**134**	–
Others	**13**	398
	8,052	11,364

Notes:

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

(b) During the year, the Group recognised government grants of approximately RMB156,000 (equivalent to HK$180,000) in respect of COVID-19 related subsidies, of which approximately RMB156,000 (equivalent to HK$180,000) relates to Employment Support Scheme provided by the Hong Kong government.

6. SEGMENT INFORMATION

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

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

The Group's operating and reportable segments are as follows:

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

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

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

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

(a) Information about operating segment profit or loss

The segment information provided to the Group's most senior executive management for the reportable segments for the years ended 31 December 2020 and 2019 is as follows:

Year ended 31 December 2020	**AMR and other business** *RMB'000*	**SMIA business** *RMB'000*	**Total** *RMB'000*
Revenue	**54,698**	**158,036**	**212,734**
Cost of Sales	**(36,510)**	**(142,690)**	**(179,200)**
Sales and marketing expenses	**(10,967)**	**(8,164)**	**(19,131)**
Research and development expenses	**(18,119)**	**(3,593)**	**(21,712)**
Reportable segment results	**(10,898)**	**3,589**	**(7,309)**
Amortisation expenses of intangible assets identified in acquisitions	**5,342**	**27,174**	**32,516**
Impairment of intangible assets identified in acquisitions	**4,708**	**–**	**4,708**
Impairment losses of goodwill	**23,256**	**–**	**23,256**

Year ended 31 December 2019	AMR and other business *RMB'000*	SMIA business *RMB'000*	Total *RMB'000*
Revenue	139,826	78,749	218,575
Cost of Sales	(100,787)	(53,013)	(153,800)
Sales and marketing expenses	(23,268)	(7,879)	(31,147)
Research and development expenses	(22,118)	(9,521)	(31,639)
Reportable segment results	(6,347)	8,336	1,989
Amortisation expenses of intangible assets identified in acquisitions	5,342	30,561	35,903
Impairment losses of goodwill	14,680	156,493	171,173

(b) Reconciliations of segment revenue and profit or loss

	2020	2019
	RMB'000	*RMB'000*
Reportable segment results	**(7,309)**	1,989
Other income, gains/(losses)	**8,052**	11,364
General and administrative expenses	**(77,184)**	(73,703)
Finance costs	**(9,928)**	(3,245)
Share of results of an associate	**25**	(50)
Allowance for impairment losses of financial assets, net	**(27,940)**	(21,442)
Impairment losses of goodwill	**(23,256)**	(171,173)
Fair value (losses)/gains on financial instruments at fair value	**(15,442)**	5,635
Loss before taxation	**(152,982)**	(250,625)

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

(c) Revenue from major customers

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

	2020	2019
	RMB'000	*RMB'000*
SMIA business		
— Customer A	**88,228**	–
— Customer B	**34,792**	41,947
	123,020	41,947

7. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest expenses on promissory notes	**9,181**	2,456
Interest expenses on lease liabilities	**747**	726
Others	**–**	63
	9,928	3,245

8. FAIR VALUE (LOSSES)/GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE

	2020	2019
	RMB'000	*RMB'000*
Change in fair value of contingent share consideration	**–**	14,628
Change in fair value of contingent consideration notes payables	**–**	(7,985)
Change in fair value of convertible bonds	**(15,442)**	(1,008)
	(15,442)	5,635

9. INCOME TAX CREDIT

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

	2020	2019
	RMB'000	*RMB'000*
Current tax		
Provision for the year	**1,238**	1,636
Over-provision in prior years	**(1,670)**	(605)
Reversal of provision for permanent establishment risk	**(3,586)**	(1,290)
	(4,018)	(259)
Deferred tax	**(22,930)**	(13,553)
	(26,948)	(13,812)

10. LOSS FOR THE YEAR

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

	2020	2019
	RMB'000	*RMB'000*
Amortisation of intangible assets	**34,204**	37,570
Cost of inventories sold	**41,476**	92,335
Cost of AMR maintenance services	**9,009**	16,385
Cost of software license sold	**26,424**	29,686
Cost of post-contract customer support	**3,323**	9,161
Cost of construction project	**96,849**	–
Depreciation of property, plant and equipment	**5,034**	6,035
Depreciation of right-of-use asset	**7,414**	6,607
Loss on disposals of property, plant and equipment *(note 5)*	**45**	281
Gain on lease modification *(note 5)*	**(134)**	–
COVID-19 rental concession *(note 5)*	**(248)**	–
Staff costs	**40,532**	49,533
— Salaries, bonuses and allowances	**36,881**	42,956
— Retirement benefit scheme contributions	**1,347**	3,199
— Share-based payments	**2,304**	3,378
Research and development expenses	**21,712**	31,639
Auditor's remuneration	**2,080**	3,468
Allowance for impairment losses of financial assets, net	**27,940**	21,442
Write-down of inventories	**2,119**	7,481
Impairment losses of goodwill *(note 13)*	**23,256**	171,173
Impairment losses of intangible assets	**4,708**	–
Impairment losses of investments in an associate	**379**	–

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of intangible assets and operating lease charges of approximately RMB2,777,000 (2019: RMB3,570,000) which are included in the amounts disclosed separately.

Research and development expenses includes staff costs, professional fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets and materials consumed of approximately RMB17,879,000 (2019: RMB28,713,000) which are included in the amounts disclosed separately.

11. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the years ended 31 December 2020 and 2019.

12. LOSS PER SHARE

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

	2020	2019
	RMB'000	*RMB'000*
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	**(126,034)**	(236,813)

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**986,619**	859,319

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2020 and 2019 due to loss making for the years ended 31 December 2020 and 2019.

The computation of diluted loss per share for the year ended 31 December 2020 does not assume the conversion of the Company's convertible bonds since its exercise had anti-dilutive effect that would result in a decrease in loss per share for the year ended 31 December 2020.

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as the exercise price of those share options was higher than the average market price for shares for the years ended 31 December 2020 and 2019.

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted loss per share are the same.

13. GOODWILL

	2020	2019
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**215,147**	215,147
Accumulated impairment losses		
At 1 January	**(171,173)**	–
Impairment losses recognised for the year	**(23,256)**	(171,173)
At 31 December	**(194,429)**	(171,173)
Carrying amount		
At 31 December	**20,718**	43,974

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

	2020	2019
	RMB'000	*RMB'000*
AMR and other business *(note (a))*	**–**	23,256
SMIA business *(note (b))*	**20,718**	20,718
	20,718	43,974

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

(a) AMR and other business

As at 31 December 2020, the recoverable amount has been determined based on value-in-use calculation. Due to the unexpected delay in obtaining the registration certificate of broadband technology, the revenue and profit of AMR and other business segment has decreased significantly, the Group has revised its cash flow forecasts for this CGU. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.6% (2019: 3%) which does not exceed the long-term average growth rate for the business in which the respective CGU operate. The cash flows are discounted using pre-tax discount rate of 20.44% (2019: 20.16%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to the expected timing and amount of revenue and gross profit margin to be generated from the Group's PLC based broadband AMR products for the four-year budget period, which are based on the Group's historical market share and adjusted by recent market development based on available external sources of information.

As a result, impairment losses of RMB23,256,000 (2019:RMB14,680,000) for goodwill has been recorded during the year, and the carrying amount of the CGU in relation to AMR and other business has been reduced to its recoverable amount of RMB161,883,000 (2019: RMB243,751,000). Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

(b) SMIA business

As at 31 December 2020, the recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated weighted average growth rate of 2.6% (2019: 3%) which does not exceed the long-term average growth rate for the business in which the CGU operate. The cash flows are discounted using pre-tax discount rate of 23.04% (2019: 23.96%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to revenue growth rate and gross profit margin for the five-year budget period, which take into account the CGU's historical performance, existing backlog contracts, pipelines and the management's business development plan built upon industry trends.

As a result, impairment losses of RMB nil (2019: RMB156,493,000) for goodwill has been recorded during the year, and the carrying amount of the CGU in relation to SMIA business has been reduced to its recoverable amount of RMB232,338,000 (2019: RMB208,428,000).

14. TRADE AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**163,125**	152,534
Bills receivable	**9,211**	9,951
Allowance for impairment losses of trade receivables	**(83,398)**	(56,168)
	88,938	106,317
Prepayments	**36,055**	7,949
Income tax recoverable	**243**	242
Other receivables	**8,749**	13,441
Allowance for impairment losses of other receivables	**(2,400)**	(1,733)
	42,647	19,899
Total trade and other receivables	**131,585**	126,216

The Group generally allows an average credit period of 180 days (2019: 180 days) for its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

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

	2020	2019
	RMB'000	*RMB'000*
Within 6 months	**74,610**	51,221
After 6 months but within 1 year	**7,094**	11,642
Over 1 year	**7,234**	43,454
	88,938	106,317

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

15. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**66,624**	66,594
Product warranty provision	**684**	1,701
Other payables and accruals	**12,137**	10,017
	79,445	78,312

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**38,040**	51,428
After 3 months but within 6 months	**12,331**	3,059
After 6 months but within 1 year	**3,361**	5,819
Over 1 year but within 2 years	**9,553**	6,288
Over 2 years	**3,339**	–
	66,624	66,594

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

16. EVENTS AFTER THE REPORTING PERIOD

(a) Subscription of new shares by a connected person

On 25 January 2021, the Company entered into a Subscription agreement with Sailen IOT that Sailen IOT conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 403,000,000 shares at the subscription price at HK$0.24 for an aggregate amount of approximately HK$96,000,000 after deducting the professional fees and other related expenses. The amount will be off set against the outstanding principal of the promissory notes relating to the acquisition of Green Harmony.

(b) Placing of new shares under specific mandate

On 25 January 2021, the Company entered into a conditional placing agreement with Kingkey that Kingkey has conditionally agreed to procure not less than six independent placees to subscribe for up to 347,000,000 shares at a price of HK$0.24 for an aggregate amount of approximately HK$82,500,000 after deducting professional fees and other related expenses. The proceeds intended to be partially used for full settlement of the remaining outstanding principal of the promissory notes to the vendor of Green Harmony and the remaining part will be used for general working capital purpose.

17. COMPARATIVE FIGURES

The presentation in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position have been changed from the classification by nature to classification by function as the directors consider that the new presentation is more appropriate to the consolidated financial statements.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

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

Disclaimer of opinion

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

Basis for Disclaimer of Opinion

Material Uncertainties Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB126,034,000 during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB75,537,000. Its current liabilities, include acquisition consideration payables, convertible bonds and lease liabilities amounting to approximately RMB120,520,000, approximately RMB119,076,000 and approximately RMB4,488,000 respectively while its cash and cash equivalents amounted to approximately RMB121,669,000 only. These events and conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

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

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcomes of these measures, which are subject to significant uncertainties. The conditional share subscription and share placing have not been completed and no agreement has been reached with the bondholder to extend the maturity date of the convertible bonds as negotiations have not yet commenced as of the date of this report. In addition, the economic uncertainties created by the COVID-19 pandemic and the trade disputes between the PRC and United States may negatively impact the Group's operations.

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

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

The fundamental reason for the disclaimer of audit opinion (the “**Disclaimer**”) made by the auditor of the Company for the year under review is the fact that the Group incurred a net loss of approximately RMB126.0 million during the year under review and, as of that date, the Group’s current liabilities exceeded its current assets by RMB75.5 million. Despite the fact that the Directors have undertaken a number of measures to improve the Group’s liquidity and financial position, which are set out in note 2 to the consolidated financial statements, the conditional share subscription and share placing have not been completed and no agreement has been reached with the bondholder to extend the maturity date of the Convertible Bonds (as defined below) as negotiations have not yet commenced as of the date of the consolidated financial statements were approved and authorised for issue by the Board. In addition, the economic uncertainties created by the COVID-19 pandemic and the trade disputes between the PRC and United States may negatively impact the Group’s operation. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Therefore, the auditor of the Company was unable to form an audit opinion on the consolidated financial statements. Please refer to note 2 to the consolidated financial statements for details.

The audit committee of the Company (the “**Audit Committee**”) has reviewed the Disclaimer for the year under review and has well noted the basis thereof. The Audit Committee have also reviewed and agreed with the Board’s position as set out above. The management of the Company (the “**Management**”) has reviewed the impact of the Disclaimer on the Group and considers that it does not have significant impact on the Group’s operation subject to (i) the Company will negotiate with Sailen IOT on other arrangements if the conditional share subscription and/or share placing could not be completed; and (ii) the promissory notes relating to the acquisition of Green Harmony and the Convertible Bonds would be settled by further fund raising by way of equity financing to be conducted by the Company and such could be completed before the expiry (or as the case may be the extended maturity date, where applicable) of such promissory notes and convertible bonds. The Management expects the Disclaimer will be removed in the financial year ending 31 December 2021 given the measures to be successfully implemented.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Under current Sino-U.S. trade tension, more state-owned enterprises ("**SOE**") and sizeable technology-based companies tapped into the chipsets market as a result of the supportive direction conducted by the Chinese government for the promotion of national self-developed chipsets with an aim to protect the national interests and to compete internationally. Therefore, the competition landscape has been changing since a significant portion of the PLC market shares is taken up by SOE, in general. Hence, the competition among domestic PLC market participants is even more intense 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 Corporation of China ("**State Grid**") and adversely affect financial performance of the Group's AMR and other business segment.

In 2020, the products of the State Grid using PLC broadband technology has entered into the mass application stage, currently the market is highly competitive as there are a large number of manufacturers entering the broadband PLC IC market. In 2020, the State Grid conducted two centralized biddings for energy meters and Electric Energy Data Acquisition System, with 53 million energy meters tendered (28 million in the first half of the year and 25 million in the second half of the year). The tenders of broadband communication modules independently conducted by each network and provincial company, and the number is equal to the sum of the number of energy meters allocated by the State Grid after bidding, the provincial grid expansion and the replacement for operation and maintenance, which is about 74 million, representing a year-on-year decrease of 30% as compared to the demand in 2019 demand (106.7 million).

As of 2020, the number of users installed with smart meters in the State Grid is approximately 470 million, and the number of broadband communication modules is approximately 227 million (42 million in 2018, 106.7 million in 2019, and 74 million in 2020). In 2021, the State Grid will conduct two centralized biddings for energy meters and Electric Energy Data Acquisition System (one in the first half of the year and one in the second half of the year), and the demand for broadband communication modules is estimated to be the same as in 2020.

On the other hand, during the year under review, the Group's smart manufacturing & industrial automation ("**SMIA**") business segment has been continuing in exploring the field of industrial automation systems by leveraging its core technology competency, particularly in the area of maintenance and safety integrity system ("**MSI**") for the petroleum and petrochemicals industry. According to the 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 is expected to exceed RMB238 billion by 2020 and this huge market allows market participants to explore various aspects of the smart manufacturing sector.

Business Review

During the year under review, the Group operated in two major business segments. Firstly, the Group operated in AMR and other business, where the Group sold PLC products such as PLC integrated circuits ("**IC**"), modules and devices such as connectors and concentrators, which have been mainly used in the deployment and upgrade of AMR systems for smart meters by power grid companies in China as a key part of the smart grid infrastructure. The Group had been developing PLC IC with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by the State Grid. In addition, the Group also provided maintenance services on AMR systems on a project-by-project basis. Furthermore, the Group's PLC products also apply to several smart energy business in China, mainly in the area of streetlight controls, building energy management and photovoltaic power management.

Secondly, the Group expanded its business in late 2018 and engages in SMIA business where the Group offered software licenses, production safety products as well as the provision of software post-contract customer support services applied in the area of MSI for the petroleum and petrochemicals industry.

During the year under review, the Group recorded revenue of approximately RMB212.7 million (2019: approximately RMB218.6 million), representing a decrease of 2.7%.

The Group's AMR and other business segment recorded a revenue of approximately RMB54.7 million (2019: approximately RMB139.8 million), representing a decrease of approximately 60.9%. Revenue from AMR and other business segment for the year under review accounted for approximately 25.7% (2019: 64.0%) of the Group's total revenue. A significant decrease in revenue from AMR and other business segment for the year under review was mainly due to (a) a decrease in demand for the Group's PLC based narrowband AMR products by the 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 COVID-19 pandemic ("**Pandemic**") in the PRC in early 2020. Fortunately, the High-speed Power Line Communication ("**HPLC**") chips, being one of the high data rate PLC products for AMR and smart energy management ("**SEM**") business of the Group, developed by the Group have satisfied the requirements of Electric Energy Data Acquisition Standards (電力用電資訊採集系列標準) of the State Grid and have passed the inspection and testing thereof by the State Grid Measurement Center (國家電網計量中心). Such accreditation indicates that the HPLC chips of the Group meet the market entry requirements promulgated by the State Grid Measurement Center and therefore are eligible for participation in the centralized biddings conducted by the State Grid. The HPLC chips developed by the Group will better meet the application needs of the State Grid and accelerate the Group's development in smart energy applications market. Please refer to the announcement of the Company dated October 23, 2020 for further details.

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

During the year under review, the Group's SMIA business segment recorded a revenue of approximately RMB158.0 million (2019: approximately RMB78.7 million), representing an increase of approximately 100.8%. Revenue from SMIA business segment for the year under review accounted for approximately 74.3% (2019: 36.0%) of the Group's total revenue.

There was significant increase in the Group's revenue from SMIA business segment for the year ended December 31, 2020 as compared to that of the corresponding period in 2019 which was primarily attributable to the recognition of revenue in several significant projects during the year under review, while there was an unexpected delay in delivery/implementation of certain major contracts held as of December 31, 2019 for the corresponding period in 2019.

The Group recorded a decrease in loss attributable to the equity shareholders of the Company from approximately RMB236.8 million in the corresponding period in 2019 to approximately RMB126.0 million for the year under review.

The decrease in loss attributable to the equity shareholders of the Company was mainly attributable to a significant decrease in the recognition of impairment losses of goodwill during the year under review as compared to that of the corresponding period in 2019.

Research and Development

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

As at December 31, 2020, the research and development team of the Group consisted of 49 employees (as at December 31, 2019: 67 employees), representing approximately 28% (as at December 31, 2019: approximately 30%) 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, 2020, the Group held a significant intellectual property portfolio, comprising 19 patents, 108 computer software copyrights and 9 IC layout designs registered, with 9 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 decreased from approximately RMB218.6 million for the corresponding period in 2019 to approximately RMB212.7 million for the year under review, or by approximately 2.7%. This decrease was mainly attributable to (a) a decrease in demand for the Group's PLC based narrowband AMR products by the 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 the State Grid and customers under the State Grid local biddings and trading sales for the year under review as compared to that of the corresponding period in 2019.

Gross profit

Gross profit decreased by approximately 48.3% to approximately RMB33.5 million for the year under review from approximately RMB64.8 million for the corresponding period in 2019.

Gross profit margin was approximately 15.8% for the year under review and decreased by approximately 13.8 percentage points as compared with approximately 29.6% for the corresponding period in 2019. The decrease in gross profit margin of the Group was mainly attributable to an increase in revenue from construction projects in SMIA business segment (which earned a relatively lower gross profit margin in general) for the year under review.

Other income, gains/(losses)

Other income, gains/(losses) decreased by approximately 28.9% to approximately RMB8.1 million for the year under review from approximately RMB11.4 million for the corresponding period in 2019. The decrease was mainly attributable to a decrease in government grants for the year under review to approximately RMB4.8 million as compared to approximately RMB10.1 million for the corresponding period in 2019.

Sales and marketing expenses

Sales and marketing expenses decreased by approximately 38.6% to approximately RMB19.1 million for the year under review from approximately RMB31.1 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 4.7% to approximately RMB77.2 million for the year under review from approximately RMB73.7 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 mainly attributable to the recognition of impairment losses of intangible assets during the year under review.

Research and development expenses

Research and development expenses decreased by approximately 31.3% to approximately RMB21.7 million for the year under review from approximately RMB31.6 million for the corresponding period in 2019. The decrease was mainly attributable to an implementation of tightened cost control measures adopted by the Group on research and development expenses.

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

During the year under review, the Group recorded fair value losses on financial instruments at fair value of approximately RMB15.4 million (2019: fair value gains on financial instruments at fair value of approximately RMB5.6 million) which was attributable to changes in fair value of financial instruments of the Convertible Bonds (as defined below).

Income tax credit

Income tax credit increased by approximately 94.9% to approximately RMB26.9 million for the year under review from approximately RMB13.8 million for the corresponding period in 2019. The increase was mainly attributable to (a) the recognition of deferred tax asset arising from tax losses; and (b) decrease of deferred tax liability due to amortisation of intangible assets, which are identified in business acquisitions.

Impairment of Goodwill

In accordance with the relevant requirements under "Hong Kong Accounting Standard 36 — Impairment of Assets", the Group performed impairment test with assistance of an external valuation firm for the goodwill arising from the acquisitions of North Mountain Information Technology Company Limited ("**NM Technology**") and Green Harmony. After conducting impairment tests, the Group recognized impairment loss of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of approximately RMB23.3 million for the year under review (2019: approximately RMB14.7 million) and nil for the year under review (2019: approximately RMB156.5 million) respectively, after which, carrying amount of two cash-generating units have been reduced to recoverable amount. Please refer to note 13 to the consolidated financial statements as set out in this result announcement for further details.

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 year under review of approximately RMB126.0 million (2019: loss attributable to equity shareholders of the Company of approximately RMB236.8 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, cash flow generated from 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 of Hong Kong Limited ("**Stock Exchange**") on June 9, 2017. The Board believes that the Group's liquidity needs will be satisfied.

As of December 31, 2020, the Group's current assets amounted to approximately RMB281.6 million (as of December 31, 2019: approximately RMB326.5 million), with cash and cash equivalents totaling approximately RMB121.7 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 December 31, 2020, the Group's total interest-bearing liabilities amounted to RMB254.3 million (as of December 31, 2019: RMB253.2 million), representing lease liabilities, issued Convertible Bonds (as defined below) and promissory notes issued to the vendor in relation to acquisition of Green Harmony. The Group had interest-bearing liabilities of RMB244.1 million (as of December 31, 2019: RMB7.8 million) and RMB10.2 million (as of December 31, 2019: RMB245.4 million) which will be due repayable within one year and after one year respectively 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 116.0% as of December 31, 2020 (as of December 31, 2019: 48.0%).

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., ("**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 utilized 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**").

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 December 31, 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 December 31, 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 December 31, 2020 will be as follows, as to: (i) 16.81% by SB Asia Investment Fund II L.P.; and (ii) 10.54% 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 consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 11.11% over the average closing price of HK$0.72 per share of the Company as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

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

Please refer to the announcements of the Company dated 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.

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 2019, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

Capital Commitments

As at December 31, 2020, 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, 2019: Nil).

Contingent Liabilities

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

Charge on assets

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

Significant investments

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

Material Acquisition and Disposal of Subsidiaries and Associated Companies

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

Prospects

PLC technology is the main data collection method of the smart grid Electric Energy Data Acquisition System. In 2021, the State Grid will continue to apply broadband technology in the Electric Energy Data Acquisition System. Broadband and broadband dual-mode communication technology solutions will be one of the main solutions adopted in the Electric Energy Data Acquisition System of the State Grid.

In 2021, the Group will increase the market promotion of broadband products (PLC IC and communication modules) and develop provincial network markets and applications to further enhance the competitiveness of the Group's PLC products in the domestic market. Through putting efforts in the research and development and application of broadband dual-mode technology PLC IC design and range of products, and the optimization and upgrading of broadband and broadband dual-mode technology, the Group establishes a solid foundation for the development of PLC IC and products that used in the Electric Energy Data Acquisition System.

For the Group's SMIA business, the Group believes that the growth of China industrial automation market would continue to be healthy given its current relatively low penetration rate and the rising cost of labor. As petrochemical enterprises are the pioneers of the manufacturing sector in China, major market participants have started to build smart oil fields, smart pipelines and smart factories. The Group will continue to capture opportunities in the design and implementation of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry, other manufacturing and construction businesses by leveraging the Group's own technologies and intellectual property rights.

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

OTHER INFORMATION

Final Dividend

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

Compliance with the Corporate Governance Code of the Listing Rules

The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. The Board has reviewed the Company's corporate governance practices.

Save as the deviation from the code provision E.1.2 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend 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. The Chairman of the Board, Mr. Cheung Fan did not attend the annual general meeting held on June 15, 2020 due to other business engagement. However, Mr. Lau Wai Leung, Alfred, the 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 the 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with the Directors, all the Directors, confirmed that they have complied with the required standard set out in the Model Code during the year under review except for Mr. Tang Andong, an executive Director, who had through an investment holding company in which he controls, purchased a total of 84,497,500 shares of the Company ("**Shares**") and disposed of a total number of 84,497,500 Shares on 143 occasions (collectively, "**Dealings**") during the period between 18 November 2019 and 16 November 2020 without first notifying in writing the chairman of the Board or any other Director designated by the Board for the purpose of the Model Code and obtaining a dated written acknowledgement prior to such dealing in Shares. Furthermore, (i) 54 of the Dealings took place during the blackout period for the publication of the financial results of the Company for the year ended 31 December 2019 (i.e. between 26 January 2020 and 7 May 2020); and (ii) one of the Dealings took place during the blackout period for the publication of the financial results of the Company for the six months ended 30 June 2020 (i.e. between 29 July 2020 and 28 August 2020) (collectively with (i), "**Blackout Period Dealings**"). Therefore, Mr. Tang had breached B.8 of the Model Code in respect of the Dealings, and A.3 of the Model Code in respect of the Blackout Period Dealings..

The Company has put in place the following measures to ensure compliance with the Model Code by the Directors:

1) the Company has sent notification to all Directors and senior management prior to each black-out period ("**Black-out Period**") for the publication of the relevant financial results of the Company, informing them the relevant dates of the Black-out Period and reminding them that they must not deal in the securities of the Company during such period; and

2) the Company has from time to time organized trainings to the Directors to keep the Directors abreast of the Listing Rules requirements and changes thereof from time to time, including but not limited to the requirements under the Model Code provided by an external training service provider.

Given Mr. Tang's deviation from the Model Code, the Company has reiterated and reminded the Directors the relevant rules and requirements in relation to Directors' dealing in securities to ensure the compliance of the Model Code. The Company arranged training for the Directors in relation to the Model Code facilitated by the external internal control adviser engaged by the Company in March 2021. Furthermore, the Company has appointed an external internal control adviser to conduct review on, among others, the internal control system of the Company regarding the Model Code.

Closure of Register of Members for the 2021 AGM

The register of members of the Company will be closed from Tuesday, June 22, 2021 to Friday, June 25, 2021 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, June 25, 2021 (the "**2021 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2021 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, June 21, 2021.

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

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

Event after the Reporting Period

Details of significant events to cause material impact on the Group from the end of the year under review to the date of this announcement are set out in note 16 to the consolidated financial statements as set out in this results announcement.

Use of Proceeds

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

References are made to the announcements of the Company dated June 8, 2017, 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 of the Company dated May 29, 2017 (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.

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 utilization of the net proceeds during the year under review after the Re-allocation made as of July 3, 2019:

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

	Original Planned use of net proceeds *HKD'million*	**Re-allocation on July 3, 2019** *HKD'million*	**Amount utilized as at December 31, 2020** *HKD'million*	**Unutilized net proceeds as at December 31, 2020** *HKD'million*
Research and development of the PLC technology	95.7	(37.8)	44.3	13.6
Sales and marketing	32.0	(6.9)	11.3	13.8
Repayment of an entrusted bank loan	14.7	–	14.7	–
Working capital and general corporate purposes	15.8	–	15.8	–
Repayment of interest expenses	–	44.7	27.7	17.0
	158.2	–	113.8	44.4

As at the date of this announcement, the Company does not anticipate any change to the above plan of use of proceeds. The Company previously anticipated that the above net proceeds were expected to be fully utilized on or before December 31, 2020, however, due to an implementation of tightened cost control measures by the Group, the remaining unutilized net proceeds as at December 31, 2020 are expected to be fully utilized 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 at December 31, 2020, the Group had an aggregate of 177 employees (as at December 31, 2019: 221 employees). The Group recruited and promoted individual persons according to their capabilities and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and prevailing market salary scale.

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL 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 audited annual financial results of the Group for the year under review, including the accounting principles and practices adopted by the Group, and discussed financial related matters. The consolidated financial statements of the Group for the year under review have been audited by the auditor of the Group, RSM Hong Kong. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's final consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Risecomm Group Holdings Limited
Cheung Fan
Chairman and Non-executive Director

Hong Kong, March 29, 2021

As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Tang Andong and Mr. Lau Wai Leung, Alfred, the non-executive Directors are Mr. Wang Shiguang, Mr. Cheung Fan and Ms. Pan Hong and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.