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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 31 DECEMBER 2021
AND
FURTHER CHANGE IN USE OF PROCEEDS
FROM INITIAL GLOBAL OFFERING**

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB248.2 million (2020: approximately RMB212.7 million), representing an increase of approximately 16.7%.
- Revenue from Automated Meter Reading (“AMR”) and other business segment decreased by approximately 11.7% to approximately RMB48.3 million (2020: approximately RMB54.7 million) as compared with the corresponding period in 2020.
- Revenue from Smart Manufacturing & Industrial Automation (“SMIA”) business segment increased by approximately 26.5% to approximately RMB199.9 million (2020: approximately RMB158.0 million) as compared with the corresponding period in 2020.
- Net loss for the year attributable to equity shareholders of the Company amounted to approximately RMB55.3 million (2020: net loss attributable to equity shareholders of the Company approximately RMB126.0 million).
- Basic loss per share for the year amounted to approximately RMB5.05 cents (2020: basic loss per share approximately RMB12.77 cents).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2021.

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 31 December 2021 (the “**year under review**”), together with the comparative figures for the corresponding period in 2020 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 2021

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Revenue	4	248,154	212,734
Cost of sales		<u>(205,149)</u>	<u>(179,200)</u>
Gross profit		43,005	33,534
Other income, gains/(losses)	5	6,169	8,052
Reversal/(allowance) for impairment losses on financial assets, net		10,271	(27,940)
Selling and marketing expenses		(24,728)	(19,131)
General and administrative expenses		(60,762)	(77,184)
Research and development expenses		<u>(19,596)</u>	<u>(21,712)</u>
Loss from operations		(45,641)	(104,381)
Impairment losses of goodwill		–	(23,256)
Finance costs	7	(9,487)	(9,928)
Share of results of an associate		(42)	25
Fair value losses on financial instruments at fair value		<u>(6,916)</u>	<u>(15,442)</u>
Loss before tax		(62,086)	(152,982)
Income tax credit	8	<u>6,833</u>	<u>26,948</u>
Loss for the year attributable to owners of the Company	9	<u>(55,253)</u>	<u>(126,034)</u>
Loss per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents</i>)	11	<u>(5.05)</u>	<u>(12.77)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
Loss for the year	9	(55,253)	(126,034)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of entities outside mainland China		<u>7,407</u>	<u>12,926</u>
Total comprehensive loss for the year		<u>(47,846)</u>	<u>(113,108)</u>
Attributable to:			
Owners of the Company		<u>(47,846)</u>	<u>(113,108)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		20,251	24,330
Right-of-use assets		10,310	14,218
Goodwill	<i>12</i>	20,718	20,718
Intangible assets		119,050	141,540
Interest in an associate		–	42
Deferred tax assets		37,967	35,915
Total non-current assets		208,296	236,763
Current assets			
Inventories		15,890	22,501
Contract costs		786	5,831
Contract assets		33,987	–
Trade and other receivables	<i>13</i>	120,777	131,585
Restricted bank deposits		104	–
Bank and cash balances		91,705	121,669
Total current assets		263,249	281,586
TOTAL ASSETS		471,545	518,349
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		151	86
Reserves		193,648	114,255
Total equity		193,799	114,341

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Other borrowing		4,904	–
Deferred income		1,624	2,985
Lease liabilities		7,248	10,238
Deferred tax liabilities		28,108	33,662
		<hr/>	<hr/>
Total non-current liabilities		41,884	46,885
Current liabilities			
Trade and other payables	<i>14</i>	100,951	79,445
Contract liabilities		10,586	31,133
Lease liabilities		3,774	4,488
Acquisition consideration payables		–	120,520
Convertible bonds	<i>15</i>	117,590	119,076
Income tax payables		2,961	2,461
		<hr/>	<hr/>
Total current liabilities		235,862	357,123
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		471,545	518,349
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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.

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

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

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

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

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

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

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

Amendment to HKFRS 16, COVID-19 Related Rent Concessions

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

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

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

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

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

The Group is also engaged in the sales of software license, production safety products, construction contracts as well as the provision of software post-contract customer support services in connection with the SMIA applied in the area of maintenance and safety integrity system in the petroleum and petrochemicals industry.

(a) Disaggregation of revenue

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

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products or service lines:		
AMR and other business		
— PLC Integrated circuits (“ICs”)	19,137	13,592
— PLC Modules	1,139	4,786
— Other products	15,572	20,706
— AMR maintenance services	<u>12,434</u>	<u>15,614</u>
Sub-total of AMR and other business	<u>48,282</u>	<u>54,698</u>
SMIA business		
— Software license	82,492	32,090
— Production safety products	<u>22,892</u>	<u>22,496</u>
Sub-total of SMIA business	<u>105,384</u>	<u>54,586</u>
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products or service lines:		
— Post-contract customer support service	2,668	4,551
— Construction contracts	<u>91,820</u>	<u>98,899</u>
Sub-total of SMIA business	<u>94,488</u>	<u>103,450</u>
Total	<u><u>248,154</u></u>	<u><u>212,734</u></u>

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 and the expected timing of recognising revenue as follows:

	Software license		Post-contract customer support service	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within one year	34,294	22,766	2,075	2,668
More than one year but not more than two years	31,181	18,679	–	2,075
More than two years	31,229	15,566	–	1,730
	96,704	57,011	2,075	6,473

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

5. OTHER INCOME, GAINS/(LOSSES)

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income from bank deposits	1,367	2,523
Government grant		
— Unconditional subsidies (<i>note (a)</i>)	3,299	2,811
— Conditional subsidies (<i>note (b)</i>)	1,360	2,005
Loss on disposals of property, plant and equipment	(175)	(45)
Net foreign exchange (loss)/gains	(344)	152
Rental income	493	211
COVID-19 rental concession	–	248
Gain on lease modification	–	134
Others	169	13
	6,169	8,052

Notes:

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

- (b) During the year, the Group recognised an amount of approximately RMB1,360,000 (2020: approximately RMB1,849,000) of government grants in respect of the acquisition of plant and equipments for supporting research and development stages related subsidies. For the year ended 31 December 2020, the Group has recognised RMB156,000 (equivalent to HK\$180,000) relates to Employment Support Scheme provided by the Hong Kong government.

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 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 2021 and 2020 is as follows:

Year ended 31 December 2021	AMR and other business RMB'000	SMIA business RMB'000	Total RMB'000
Revenue	48,282	199,872	248,154
Cost of Sales	(31,343)	(173,806)	(205,149)
Selling and marketing expenses	(10,128)	(14,600)	(24,728)
Research and development expenses	(17,974)	(1,622)	(19,596)
Reportable segment results	<u>(11,163)</u>	<u>9,844</u>	<u>(1,319)</u>
Amortisation expenses of intangible assets identified in acquisitions	–	22,036	22,036
Impairment of intangible assets identified in acquisitions	–	–	–
Impairment losses of goodwill	–	–	–
Year ended 31 December 2020	AMR and other business RMB'000	SMIA business RMB'000	Total RMB'000
Revenue	54,698	158,036	212,734
Cost of Sales	(36,510)	(142,690)	(179,200)
Selling and marketing expenses	(10,967)	(8,164)	(19,131)
Research and development expenses	(18,119)	(3,593)	(21,712)
Reportable segment results	<u>(10,898)</u>	<u>3,589</u>	<u>(7,309)</u>
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

(b) Reconciliations of segment revenue and profit or loss

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Reportable segment results	(1,319)	(7,309)
Other income, gains/(losses)	6,169	8,052
General and administrative expenses	(60,762)	(77,184)
Finance costs	(9,487)	(9,928)
Share of results of an associate	(42)	25
Reversal/(allowance) for impairment losses of financial assets, net	10,271	(27,940)
Impairment losses of goodwill	–	(23,256)
Fair value losses on financial instruments at fair value	(6,916)	(15,442)
	<u>(62,086)</u>	<u>(152,982)</u>
Loss before taxation	<u>(62,086)</u>	<u>(152,982)</u>

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

(c) Revenue from major customers

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
SMIA business		
— Customer A (<i>note</i>)	–	88,228
— Customer B	36,313	34,792
— Customer C	91,580	–
— Customer D	28,118	–

Note: Revenue from this customer for the year ended 31 December 2021 did not contribute over 10% of the total revenue.

7. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest expenses on promissory notes	8,793	9,181
Interest expenses on lease liabilities	616	747
Interest expenses on other borrowing	78	–
	<u>9,487</u>	<u>9,928</u>

8. INCOME TAX CREDIT

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
Provision for the year	787	1,238
Over-provision in prior years	(14)	(1,670)
Reversal of provision for permanent establishment risk	—	(3,586)
	<u>773</u>	<u>(4,018)</u>
Deferred tax		
Over-provision in prior years	(2,157)	—
Changes in temporary differences	(5,449)	(22,930)
	<u>(7,606)</u>	<u>(22,930)</u>
	<u>(6,833)</u>	<u>(26,948)</u>

9. LOSS FOR THE YEAR

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Amortisation of intangible assets	22,658	34,204
Cost of inventories sold	40,201	41,476
Cost of AMR maintenance services	9,380	9,009
Cost of software license sold	64,864	26,424
Cost of post-contract customer support	2,133	3,323
Cost of construction project	86,025	96,849
Depreciation of property, plant and equipment	4,499	5,034
Depreciation of right-of-use asset	4,782	7,414
Loss on disposals of property, plant and equipment (<i>note 5</i>)	175	45
Gain on lease modification (<i>note 5</i>)	—	(134)
COVID-19 rental concession (<i>note 5</i>)	—	(248)
Staff costs	36,290	40,532
— Salaries, bonuses and allowances	31,997	36,881
— Retirement benefit scheme contributions	3,476	1,347
— Share-based payments	817	2,304
Research and development expenses	19,594	21,712
Auditor's remuneration	2,458	2,080
— Audit services	2,080	2,080
— Non-audit services	378	—
(Reversal)/allowance for impairment losses of financial assets, net	(10,271)	27,940
Write-down of inventories	2,546	2,119
Impairment losses of goodwill (<i>note 12</i>)	—	23,256
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 RMB1,639,000 (2020: RMB2,777,000) which are included in the amounts disclosed separately.

Research and development expenses includes staff costs, professional fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets and materials consumed of approximately RMB13,696,000 (2020: RMB17,879,000) which are included in the amounts disclosed separately.

10. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the years ended 31 December 2021 and 2020.

11. LOSS PER SHARE

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

	2021	2020
	RMB'000	RMB'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	<u>(55,253)</u>	<u>(126,034)</u>
	2021	2020
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	<u>1,093,887</u>	<u>986,619</u>

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2021 and 2020 due to loss making for the years ended 31 December 2021 and 2020.

The computation of diluted loss per share for the year ended 31 December 2021 and 2020 does not assume the conversion of the Company's convertible bonds since its exercise had anti-dilutive effect that would result in a decrease in loss per share for the year ended 31 December 2021 and 2020.

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as the exercise price of those share options was higher than the average market price for shares for the years ended 31 December 2021 and 2020.

On 17 December 2021, the Company offered rights issue to its existing shareholders at a subscription price higher than its market price. Therefore, there were no bonus elements for this rights issue and the weighted average number of ordinary shares were not adjusted for the year ended 31 December 2021 and 2020.

12. GOODWILL

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost		
At 1 January and 31 December	<u>215,147</u>	<u>215,147</u>
Accumulated impairment losses		
At 1 January	(194,429)	(171,173)
Impairment losses recognised for the year	<u>–</u>	<u>(23,256)</u>
At 31 December	<u>(194,429)</u>	<u>(194,429)</u>
Carrying amount		
At 31 December	<u><u>20,718</u></u>	<u><u>20,718</u></u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
AMR and other business (<i>note (a)</i>)	–	–
SMIA business (<i>note (b)</i>)	<u>20,718</u>	<u>20,718</u>
	<u><u>20,718</u></u>	<u><u>20,718</u></u>

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

(a) AMR and other business

As at 31 December 2021, the recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2020: 2.6%) which does not exceed the long-term average growth rate for the business in which the respective CGU operate. The cash flows are discounted using pre-tax discount rate of 17.25% (2020: 20.44%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to the expected timing and amount of revenue and gross profit margin to be generated from the Group's PLC based broadband AMR products for the four-year budget period, which are based on the Group's historical market share and adjusted by recent market development based on available external sources of information.

As a result, no impairment losses for goodwill has been recorded during the year (2020: RMB23,256,000), goodwill has been fully impaired for the year ended 31 December 2020. The carrying amount of the CGU for 2021 in relation to AMR and other business amounted of approximately RMB160,687,000 (2020: RMB161,883,000). Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

(b) SMIA business

As at 31 December 2021, the recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2020: 2.6%) which does not exceed the long-term average growth rate for the business in which the CGU operate. The cash flows are discounted using pre-tax discount rate of 21.29% (2020: 23.04%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to revenue growth rate and gross profit margin for the four-year budget period, which take into account the CGU's historical performance, existing backlog contracts, pipelines and the management's business development plan built upon industry trends.

As a result, no impairment losses for goodwill has been recorded during the year (2020: Nil) and the carrying amount of the CGU for 2021 in relation to SMIA business is approximately RMB185,016,000 (2020: RMB232,338,000).

In SMIA business segment, the recoverable amount calculated based on value in use exceeded carrying value by approximately RMB28,747,000. The pre-tax rates used to discount the forecast cash flows of SMIA CGU change from 21.29% to 24.26%, would remove the remaining headroom.

13. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	141,883	163,125
Bills receivable	4,351	9,211
Allowance for impairment losses of trade receivables	<u>(56,977)</u>	<u>(83,398)</u>
	<u>89,257</u>	<u>88,938</u>
Prepayments	25,609	36,055
Income tax recoverable	243	243
Other receivables	8,586	8,749
Allowance for impairment losses of other receivables	<u>(2,918)</u>	<u>(2,400)</u>
	<u>31,520</u>	<u>42,647</u>
Total trade and other receivables	<u><u>120,777</u></u>	<u><u>131,585</u></u>

The Group generally allows an average credit period of 180 days (2020: 180 days) for its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 6 months	69,140	74,610
After 6 months but within 1 year	5,461	7,094
Over 1 year	<u>14,656</u>	<u>7,234</u>
	<u><u>89,257</u></u>	<u><u>88,938</u></u>

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

14. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	85,447	66,624
Product warranty provision	557	684
Other payables and accruals	<u>14,947</u>	<u>12,137</u>
	<u>100,951</u>	<u>79,445</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	59,348	38,040
After 3 months but within 6 months	2,067	12,331
After 6 months but within 1 year	1,706	3,361
Over 1 year but within 2 years	19,051	9,553
Over 2 years	<u>3,275</u>	<u>3,339</u>
	<u>85,447</u>	<u>66,624</u>

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

15. CONVERTIBLE BONDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Balance at 1 January	119,076	116,196
Payment for interest on convertible bonds	(4,954)	(5,185)
Re-measurement on convertible bonds	6,916	15,442
Foreign currency exchange adjustment	(3,448)	(7,377)
	<u>117,590</u>	<u>119,076</u>

On 13 August 2018 (“**Issue Date**”), the Group issued convertible bonds to an independent third party (the “**Holder**”) with principal amount of HK\$150,000,000 (equivalent to approximately RMB131,130,000) with a maturity period of two years to 13 August 2020 (“**Maturity Date**”). The Maturity Date may be extended to the date falling 36 months from the Issue Date at the request of the Group (“**the Extended Maturity Date**”). In 2019, the Group has exercised the extension right by serving an extension notice to the Holder in accordance with terms and conditions of the convertible bonds. As a result, the Maturity Date has been changed to 13 August 2021.

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

On 13 August 2020, the conversion price of the convertible bonds adjusted from HK\$2.5 to HK\$0.8 per share. The convertible bonds can be converted into ordinary shares of the Company at the holder’s option at an conversion price of HK\$0.80 per share subject to adjustment for, among other matters, sub-division, consolidation and reclassification of shares, issue of shares in lieu of the whole or any part of a specifically declared cash dividend, capital distributions, issue of convertible securities, issue of new shares in discount, consideration issues and other dilutive events.

On 13 August 2021, the Group and the convertible bond holder entered into the second amendment and extension agreement, pursuant to which, the Company and the bondholder conditionally agreed to further extend the Extended Maturity Date of the Convertible Bonds by 12 months from 13 August 2021 to the new maturity date of 13 August 2022 by way of executing the second supplemental deed.

The entire convertible bonds are designated as financial liabilities at FVTPL since inception date.

Fair value of the Group’s convertible bonds was determined by an independent professional valuation firm by using lattice model with the following key inputs:

	31 December 2021	31 December 2020	Date of issue
Risk free rates	0.19%	0.08%	1.87%
Discount rate	14.34%	17.47%	18.40%
Dividend yield	0%	0.79%	0.95%
Expected volatility	56.98%	44.40%	57.28%

16. RELATED PARTY TRANSACTIONS

- (a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

Related party transactions

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Office premises rental expenses paid to Wang Shiguang ("Mr. Wang") (<i>note</i>)	362	724
Goods sold to a related company	—	13
	<u>362</u>	<u>737</u>

Note: Mr. Wang was one of the Non-Executive Director of the Group. Mr. Wang has retired as the Non-Executive Director with effect from 25 June 2021.

As at 31 December 2021, the Group had Nil balance with related parties (2020: Nil.).

- (b) The remuneration of Directors and other members of key management during the year were as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Short-term employee benefits	7,853	9,011
Post-employee benefits	313	63
	<u>8,166</u>	<u>9,074</u>

17. EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

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

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

On the other hand, during the year under review, the Group’s smart manufacturing & industrial automation (“**SMIA**”) business segment has been continuing in exploring the field of industrial automation systems by leveraging its core technology competency, particularly in the area of maintenance and safety integrity system (“**MSI**”) for the petroleum and petrochemicals industry.

In the face of the current global manufacturing industry’s transformation towards digitalization, networking and intelligence, there has been a continuous increase in policy support for the intelligent manufacturing industry by the PRC government. The “Intelligent Manufacturing Development Plan (2016-2020)” (智能製造發展規劃(2016-2020年)) proposes that by 2025, China can basically establish an intelligent manufacturing support system, and the key industries can basically realize digital manufacturing and even achieve intelligent transformation. In the future, rapid industrial development will promote the continuous expansion of the market scale of the intelligent manufacturing industry, bringing abundant opportunities to the Group.

Business Review

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

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

During the year under review, the Group recorded revenue of approximately RMB248.2 million (2020: approximately RMB212.7 million), representing an increase of approximately 16.7%.

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

The outbreak of the Pandemic in early 2020 and its continuance in 2021 have affected the business and economic activities around the world and have brought about additional uncertainties to the Group's operating environment. The Pandemic has to a certain extent impacted the Group's operations and financial position.

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

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

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

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

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

Research and Development

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

As at 31 December 2021, the research and development team of the Group consisted of 51 employees (as at 31 December 2020: 49 employees), representing approximately 31% (as at 31 December 2020: approximately 28%) of the Group's total workforce, specializing in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

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

Financial Review

Revenue

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

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

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

Gross profit

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

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

Other income, gains/(losses)

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

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

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

Selling and marketing expenses

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

General and administrative expenses

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

Research and development expenses

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

Income tax credit

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

Impairment of Goodwill

In accordance with the relevant requirements under “Hong Kong Accounting Standard 36 — Impairment of Assets”, the Group performed impairment test with assistance of an external valuation firm for the goodwill arising from the acquisitions of North Mountain Information Technology Company Limited (“**NM Technology**”) and Green Harmony Limited (“**Green Harmony**”). After conducting impairment tests, the Group recognized impairment loss of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2020: approximately RMB23.3 million) and nil for the year under review (2020: nil) respectively, after which, carrying amount of two cash-generating units have been reduced to recoverable amount. Please refer to note 12 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 and the change in fair value of convertible bonds of approximately RMB6.9 million during the year under review, the Company recorded a loss attributable to equity shareholders of the Company for the year under review of approximately RMB55.3 million (2020: loss attributable to equity shareholders of the Company of approximately RMB126.0 million).

Liquidity and Financial Resources

During the year under review, the Group's operations were mainly financed by (i) internal resources, including but not limited to existing cash and cash equivalents, cash flow generated from operating activities; (ii) net proceeds generated from the listing of shares of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 9 June 2017; (iii) net proceeds generated from the Subscriptions (as defined below) of new shares under general mandate completed in July 2021 and (iv) net proceeds generated from the Rights Issue (as defined below) completed in December 2021. The Board believes that the Group's liquidity needs will be satisfied.

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

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

Issue of convertible bonds

Pursuant to subscription agreements entered into by the Company on 31 July 2018, the Company issued convertible bonds (the “**Convertible Bonds**”) with aggregate principal amount of HKD150,000,000 at coupon interest rate of 4% per annum to Software Research Associates, Inc., (“**SRA**”) an independent investor, on 13 August 2018 (the “**Issue Date**”). The aggregated net proceeds from the issue of the Convertible Bonds was approximately HKD146.0 million, and all such proceeds have been fully utilised by the Group. The reason for the issue of the Convertible Bonds was to raise fund to settle the consideration for the acquisition of Green Harmony. The maturity date of the Convertible Bonds has been extended for two times and the current maturity date of the Convertible Bonds is on 13 August 2022. At any time after the Issue Date prior to maturity, the holder of the Convertible Bonds shall have the right to convert in whole or in part the outstanding principal amount of the Convertible Bonds into such number of fully paid ordinary shares of the Company (the “**Conversion Shares**”) with an initial conversion price of HKD2.50 per Conversion Share (the “**Initial Conversion Price**”) which is subject to anti-dilutive adjustments arising from such events.

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

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

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

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

Please refer to the announcements of the Company dated July 31, 2018 and August 13, 2018 for further details of the Convertible Bonds, the announcements of the Company dated June 24, 2020 and August 13, 2020 for further details in relation to the Proposed Amendment, and the announcements of the Company dated 13 August 2021, 19 August 2021, 3 September 2021 and 6 October 2021 for further details in relation to the second proposed amendment in relation to the further extension of the maturity date of the Convertible Bonds.

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in HKD or USD. The fluctuation of exchange rate of the currencies will have certain impact on the Group’s business which are settled in foreign currencies. During the year under review and the corresponding period in 2020, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

Capital Commitments

As at 31 December 2021, 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 31 December 2020: nil).

Contingent Liabilities

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

Charge on assets

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

Significant investments

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

Material Acquisition and Disposal of Subsidiaries and Associated Companies

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

Prospects

In 2021, State Grid will continue to apply broadband technology in the Electric Energy Data Acquisition Systems. The Group is promoting and expanding its PLC broadband products (PLC IC and communication modules) to more provincial network markets, thereby strengthening the competitiveness of the Group's broadband products in the domestic market. In addition, with the PRC government's promotion of smart city construction, support for energy conservation and emission reduction, and the continuous expansion of the overseas market for smart meters under the Belt and Road Initiative, the market of PLC technology is expected to maintain a good development trend in the next few years, which will expect to promote the sales of various products under the Group's AMR and other business line.

For the Group's SMIA business, the Group believes that the growth of China industrial automation market would continue to be healthy given its current relatively low penetration rate and the rising cost of labour. As petrochemical enterprises are the pioneers of the manufacturing sector in China, major market participants have started to build smart oil fields, smart pipelines and smart factories.

The Group will continue to capture opportunities in the design and implementation of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry, other manufacturing and construction businesses by leveraging the Group's own technologies and intellectual property rights.

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

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

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

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

Closure of Register of Members for the 2022 AGM

The register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022 (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 24 June 2022 (the "**2022 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2022 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 20 June 2022.

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

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

Use of Proceeds

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

References are made to the announcements of the Company dated 8 June 2017, 21 June 2017 and 3 July 2019. The aggregated net proceeds from the global offering of the shares of the Company in connection with the Listing and exercise of the over-allotment option by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (as defined in the prospectus of the Company dated 29 May 2017 (the “**IPO Prospectus**”))) was approximately HKD158.2 million. Proposed application of net proceeds as stated in the IPO Prospectus had been adjusted according to the principles as specified in the section headed “Future Plans and Use of Proceeds” of the IPO Prospectus.

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

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

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

	Original Planned use of net proceeds	Re-allocation on 3 July 2019	Amount utilised as at 31 December 2021	Unutilised net proceeds as at 31 December 2021
	<i>HKD'million</i>	<i>HKD'million</i>	<i>HKD'million</i>	<i>HKD'million</i>
Research and development of the PLC technology	95.7	(37.8)	52.1	5.8
Sales and marketing	32.0	(6.9)	13.0	12.1
Repayment of an entrusted bank loan	14.7	–	14.7	–
Working capital and general corporate purposes	15.8	–	15.8	–
Repayment of interest expenses	–	44.7	27.7	17.0
	<u>158.2</u>	<u>–</u>	<u>123.3</u>	<u>34.9</u>

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

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

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

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

- (i) approximately HK\$3.0 million for repayment of interest expenses incurred by the Convertible Bonds; and
- (iii) approximately HK\$14.0 million for working capital and general corporate purposes.

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

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

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

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

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

The remaining unutilised net proceeds as at the date of this announcement are expected to be fully utilised on or before 31 December 2024.

(iii) Use of proceeds from the Subscriptions

References are made to the GM Subscription Announcement and the announcement of the Company dated 27 July 2021 in relation to the completion of Subscriptions. The aggregated net proceeds derived from the Subscriptions were approximately HKD33.3 million.

During the year under review, the net proceeds had been fully applied for the partial settlement of the outstanding principal and accrued interests of the Promissory Notes.

(iv) Use of proceeds from the Rights Issue

References are made to the announcement of the Company dated 19 October 2021 and 16 December 2021 and the Rights Issue Prospectus in relation to the Rights Issue. The aggregated net proceeds derived from the Rights Issue were approximately HKD121.1 million.

During the year under review, the net proceeds had been fully applied for (i) full settlement of the outstanding principal and accrued interests of the Promissory Notes; and (ii) settlement of other outstanding indebtedness and trade and other payables of the Group.

Employee Information

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

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

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

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 2021 as set out in this announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year under review. 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 this 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
Yue Jingxing
Chairman and Executive Director

Hong Kong, 29 March 2022

As at the date of this announcement, the executive Directors are Mr. Yue Jingxing, Mr. Lau Wai Leung, Alfred and Mr. Jiang Feng, the non-executive Directors are Mr. Cheung Fan, Mr. Yu Lu and Mr. Ding Zhigang, and the independent non-executive Directors are Mr. Ong King Keung, Ms. Lo Wan Man and Mr. Zou Heqiang.