瑞斯康

Risecomm Group Holdings Limited

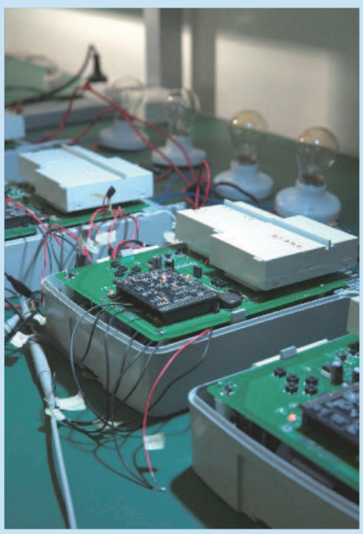
瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1679

2017 Annual Report

Risecomm Group
Product Assembly Hubs



Product Assembly Hubs located in Yantian, Shenzhen & Changsha, Hunan, the PRC

Contents

The headquarters of Risecomm Group at Shenzhen, the PRC

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Shiguang *(Chairman)*
Mr. Yue Jingxing
Mr. Zhang Youyun

NON-EXECUTIVE DIRECTORS

Mr. Ng Benjamin Jin-ping
Mr. Lau Wai Leung
(appointed on November 22, 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

(for the purpose of the Listing Rules)

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

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

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

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

COMPLIANCE ADVISER

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

AUDITOR

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Skyworth Building C501
Hi-tech Industrial Park
Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 2, 12/F.
Emperor Group Centre
No. 288 Hennessy Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.risecomm.com.cn

STOCK CODE

1679

The Corporate Mission

ADVANCING TECHNOLOGY FRONTIERS FOR A BETTER LIFE

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

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

Chairman's Statement

"The Group will continue to enhance its PLC Integrated Circuit design, research & development capability in PLC technology and sales efforts in order to enhance its brand recognition in both AMR & SEM markets. With extensive industry experience and a proven track record, the Group will capture the opportunities arising from the new industry standards for broadband PLC while broadening its SEM market, with the aim of generating greater value for shareholders."

Mr. Wang Shiguang
Chairman & Executive Director

TO THE SHAREHOLDERS

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**" together with its subsidiaries, the "**Group**"), I am pleased to present the first annual report of the Company for the year ended December 31, 2017 since the successful listing of shares of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on June 9, 2017 (the "**Listing Date**"). The Listing is truly a major milestone in the Group's development history in the Power Line Communication ("**PLC**") market in China and also presents new opportunities for the future development of the Group.

Over the past few years, the Group has significantly grown together with the demand for PLC products mainly used in the deployment and upgrade of Automated Meter Reading ("**AMR**") systems in State Grid Corporation of China ("**State Grid**") and China Southern Power Grid Co., Ltd. ("**Southern Grid**"). Due to the combined efforts of the Group's management and staff, the Group has become one of the largest PLC technology companies in China in 2016 with a market share of 11.2% in terms of sales volume of PLC products and also commercially deployed its AMR products by State Grid in 23 out of the 26 provinces it covers in China.

Nevertheless, there was a continuous change in the landscape of demand of AMR products in 2017 since the penetration of smart meters under State Grid's first-round commercial deployment is reaching saturation. In the transitional period for new industry standard for broadband PLC which was formally adopted in 2017, State Grid had exhibited a trend of slow-down in its procurement of smart meters with conducting only two times of centralized biddings in 2017 (March and November 2017, respectively), whereas typically three to five bidding times were conducted annually in prior years. As a result, the operating performance of the Group for the year ended December 31, 2017 had been significantly affected as the revenue from the AMR business constituted a core source of income to the Group.

Although the vast demand of the broadband PLC products under the further deployment and upgrades of AMR in the State Grid had not yet come in 2017 and posed certain short-term challenges to the industry, the Group still underwent an array of tasks to accomplish the goals internally set by management in the areas of the design and development of system-on-chip integrated circuits ("**IC**"), modules, devices and solution to suit for the technical requirements of new products which was set out by State Grid during the course of upgrading the AMR system to broadband PLC. The Group's research and development ("**R&D**") personnel are leveraged on a strong R&D foundation being cultivated in years, the Group is well equipped in aiming to continue its expansion on product ranges in AMR business to meet for the market need in the future. A temporary layback in product demand was inevitable but the management are confident of grasping another prime opportunity of the product upgrade with seamless R&D support.

Furthermore, the Group discharged an equal effort to diversify its products coverage to the area of smart energy management ("**SEM**") business, which demonstrated the capability in the Group's technology adaptiveness. Under the SEM business segment, the Group applies its proprietary PLC-based communications technology in its SEM products and solutions to facilitate data transmission and communications for remote controlling and monitoring energy consuming equipment and devices for better energy management and conservation. In aiming to accelerate the Group's development, in December 2017, the Company entered into a conditional sale and purchase agreement to acquire a company, which indirectly holds the entire equity interest in a group of companies established in China, which is principally engaged in the business of industrial automation systems, particularly in the area of maintenance and safety integrity system ("**MSI**") for the petroleum and petrochemicals industry. The Company considered this acquisition possesses potential synergies and benefits that can serve to expedite the Group's business strategy of expanding its non-AMR revenue contribution to achieve a more balanced revenue composition, lessen its exposure to the inherent risk of reliance on China's power grid ecosystem, and overall expand its revenue stream and further diversify its customer base. Such acquisition provides the Group with direct access to co-service this major customer and gain invaluable technical and project experience to expedite its R&D of PLC-based communications solutions tailored for wider industrial applications. This acquisition has not been completed as of the date of this report.

The Group also intends to progressively expand its sales channels, conducting marketing and promotion activities to enhance brand recognition in both AMR & SEM markets. In March 2018, a member of the Group entered into a conditional share purchase agreement to acquire a company, which directly holds the entire equity interest in a company established in China, which is principally engaged in sales and distribution of electronic components, in particular for integrated circuits and related product in China. The Group considers this acquisition is aligned with its business strategy in respect of the Group's expansion in AMR business markets. This acquisition has not been completed as of the date of this report.

In addition, the Group is further enhancing its corporate governance as we strive to become an advanced PLC technology company in China, eventually in global aspect and develop all aspects of the Group's operations by continuously leveraging its competitive advantages in a bid to generate greater values for the shareholders of the Company ("**Shareholders**").

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

Mr. Wang Shiguang
Chairman & Executive Director

Hong Kong, March 28, 2018

MARKET REVIEW

Mr. Yue Jingxing
Chief Executive Officer & Executive Director

State Grid commenced commercial deployment of AMR systems in 2010, as a result, the annual bidding volume from State Grid for smart meters increased at a compound annual growth rate ("**CAGR**") of 6.5% from 45.4 million units in 2010 to 65.7 million units in 2016. China's PLC market had grown rapidly during the period from 2010 to 2016 in tandem, driven by the massive procurement of AMR devices, in particular smart meters, by State Grid in connection with its continual deployment of AMR systems. The development of the AMR application in China has been, and will continue to be, driven by favourable policies of the PRC government as disclosed in the prospectus of the Company dated May 29, 2017 (the "**Prospectus**") as well as initiatives implemented by State Grid and other major industry participants.

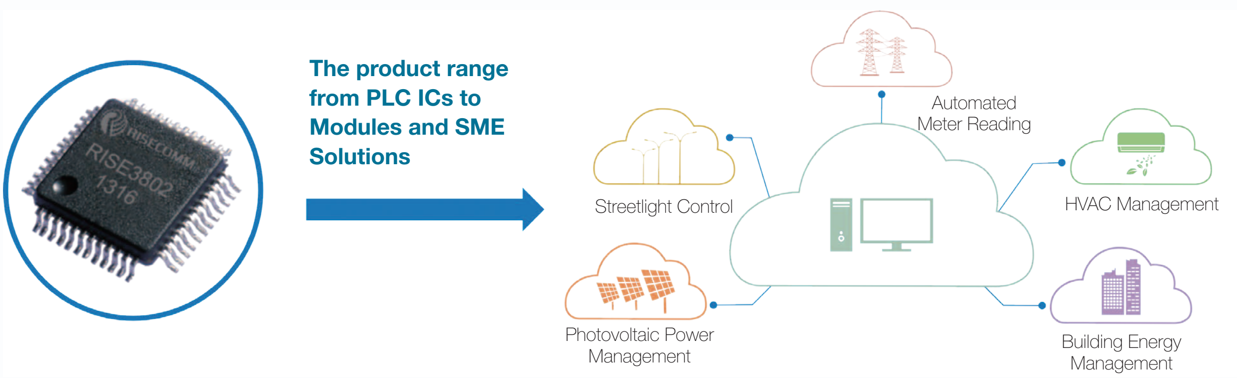
However, State Grid's bidding volume of smart meters decreased from 91.0 million units in 2015 to 65.7 million units in 2016 and unexpectedly further decreased to 37.8 million units by 2017 as only two centralized biddings (March & November) were conducted by State Grid in 2017 (2016: three biddings), partly as penetration of smart meters under State Grid's first-round commercial deployment was reaching saturation, and also State Grid has exhibited a trend of slow-down in its procurement of smart meters in anticipation of a new industry standard for broadband PLC which was formally adopted in 2017. 2017 was a transitional year from narrowband to broadband PLC industry standard in the AMR application. As a result, a temporary slowdown in market hampered the overall industry performance.

BUSINESS REVIEW

During the year under review, the Group operated in two major business segments (i) AMR business, the Group sold PLC products such as PLC ICs, modules and devices such as connectors and concentrators, which have been mainly used in the deployment and upgrade of AMR systems for smart meters by power grid companies in China as a key part of the smart grid infrastructure. The Group pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid. In addition, the Group also provided maintenance services on AMR systems on a project-by-project basis; and (ii) SEM business, offering PLC products and solutions for a number of PLC applications related to energy saving and environmental protection. These applications include streetlight control, building energy management and photovoltaic power management.

During the year under review, the Group's AMR business segment recorded a revenue of approximately RMB295.2 million (2016: approximately RMB376.7 million), representing a decrease of approximately 21.6%. Revenue from AMR business segment for the year under review accounted for approximately 93.0% (2016: approximately 96.5%) of the Group's total revenue. Decrease in revenue from AMR business segment for the year under review was mainly due to a decrease in aggregated sales volume of PLC ICs and PLC modules to approximately 8.7 million units (2016: approximately 13.2 million units), by approximately 4.5 million units, mainly attributable to industrial cyclical variability and a slower than expected pace of procurement of smart meters by State Grid in 2017, resulting a delay in delivery of confirmed orders. Revenue of approximately RMB22.2 million from the SEM business segment was recognized during the year under review (2016: approximately RMB13.5 million), representing an increase of approximately 63.8%. Revenue from SEM business segment for the year under review accounted for approximately 7.0% (2016: approximately 3.5%) of the Group's total revenue. The increase in revenue from SEM business segment for the year under review was mainly due to the significant increase in the sales of streetlight control devices and concentrators for streetlight controls.

Accordingly, the Group had experienced a significant decrease in profit attributable to the equity shareholders of the Company to approximately RMB12.7 million for the year under review from approximately RMB57.7 million for that in 2016, which was mainly attributable to (i) an increase in non-recurring expenses incurred by the Group in respect of the Listing on The Stock Exchange on June 9, 2017 as compared to that of the corresponding period in 2016. Non-recurring Listing expenses of approximately RMB12.9 million (2016: approximately RMB8.5 million) were recognized in the Group's consolidated statement of profit or loss and other comprehensive income for the year under review and an increase in professional fees incurred subsequent to the Listing; (ii) an increase in R&D expenses. R&D expenses for the year under review and for that in 2016 were approximately RMB47.2 million and approximately RMB37.8 million, respectively, which accounted for approximately 14.9% and approximately 9.7% of the Group's total revenue for the respective year. The increment in the research and development expenses was in line with the Group's research and development pace with the forthcoming implementation of a new industry standard for broadband PLC which was formally adopted in 2017; (iii) a decrease in revenue by approximately 21.6% in the AMR business segment as stated above; and (iv) a decrease in gross profit margins of the Group for the year under review to approximately 45.9% (2016: approximately 50.0%). Despite an increase in gross profit margins of SEM business for the year under review, the gross profit margins of AMR business for the year under review decreased slightly as compared to that of the corresponding period in 2016 which was mainly attributable to a decrease in revenue from sales of products to customers from meters manufacturers (which earned a relatively higher gross profit margin in general) for the year under review.

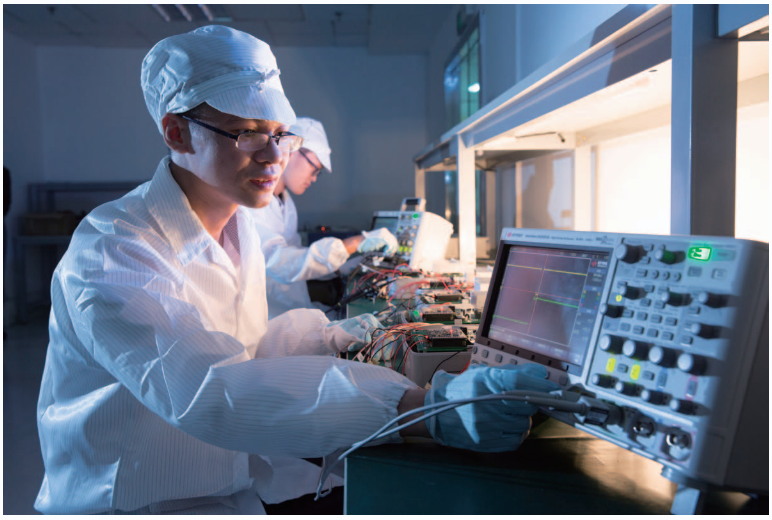


As a result, profit attributable to equity shareholders of the Company for the year under review decreased by approximately 78.1% to approximately RMB12.7 million (2016: approximately RMB57.7 million) as compared with 2016.

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. While most of the Group's competitors' source general purpose IC chipsets for the production of their PLC ICs, the Group differentiates itself by establishing its core competency in designing advanced application-specific ICs, or application-specific integrated circuits ("**ASICs**"), and using these proprietary ASICs to develop the PLC products. As a high-tech company driven by research and development, the Group's research and development efforts are focused on enhancing the functionality of its products and addressing the technical needs of its customers, as well as expanding the Group's product portfolio for different PLC applications. Furthermore, the Group engaged several external research and development consultants with complementary expertise to collaborate with us in various research and development efforts, including those for the development of broadband PLC, the "PLC+RF" technology, as well as the driver implementation of its second-generation PLC ICs and software module development to complement the Group's mainframe host station development for the SEM business.

As at December 31, 2017, the research and development team of the Group consisted of 139 employees (as at December 31, 2016: 140 employees), representing approximately 34% (as at December 31, 2016: approximately 35%) of the Group's total workforce, specializing in PLC IC design and product development for the streetlight control systems and applications and the research and development focus on concentrators and host station software development for various SEM applications, and the streetlight control application for overseas markets.



As at December 31, 2017, the Group had successfully developed a significant intellectual property portfolio, comprising 35 patents, 66 computer software copyrights, 7 registered software products and 7 IC layout designs registered, with 21 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development in PLC technology.

FINANCIAL REVIEW

Summary of financial figures

	2017 RMB'000	2016 RMB'000
Revenue	317,333	390,210
Gross profit	145,727	195,263
Profit attributable to owners of the Company	12,670	57,743
Total assets	482,355	355,134
Equity attributable to owners of the Company	391,198	220,707
Basic earnings per share (RMB cents)	1.73	9.45
Diluted earnings per share (RMB cents)	1.73	9.34

Revenue Breakdown by Business segment

Revenue

Revenue decreased from approximately RMB390.2 million for the corresponding period in 2016 to approximately RMB317.3 million for the year under review, or by approximately 18.7%. This decrease was mainly attributable to a decrease of approximately RMB81.5 million in revenue from the AMR business, coupled with an increase of approximately RMB8.6 million in revenue from the SEM business.

Gross profit

Gross profit decreased by approximately 25.4% to approximately RMB145.7 million in 2017 from approximately RMB195.3 million for the corresponding period in 2016.

Gross profit margin was approximately 45.9% for the year under review and decreased by 4.1 percentage points as compared with approximately 50.0% in the corresponding period of 2016. Despite an increase in gross profit margin of SEM business for the year under review, the gross profit margin of AMR business for the year under review decreased slightly as compared to that of the corresponding period in 2016 which was mainly attributable to a decrease in revenue from sales of products to customers from meters manufacturers (which earned a relatively higher gross profit margin in general) for the year under review.

Other income

Other income increased by approximately 20.2% to approximately RMB16.3 million for the year under review from approximately RMB13.6 million for the corresponding period in 2016. The increase was mainly attributable to recognition of net exchange gain of RMB2.7 million in 2017 while net exchange loss of RMB5.1 million was recorded in 2016. In addition, government grants for 2017 decreased by approximately RMB5.6 million to approximately RMB13.2 million from approximately RMB18.8 million for the corresponding period in 2016 which was mainly attributable to a decrease in value-added tax refund during the year under review.

Sales and marketing expenses

Sales and marketing expenses decreased by approximately 8.7% to approximately RMB55.2 million for the year under review from approximately RMB60.5 million for the corresponding period in 2016. This decrease was mainly attributable to decrease in customer service expenses and marketing and travelling expenses which were in line with the decrease in revenue in 2017.

General and administrative expenses

General and administrative expenses increased by approximately 59.6% to approximately RMB56.4 million for the year under review from approximately RMB35.3 million for the corresponding period in 2016. This increase was mainly attributable to (i) an increase of approximately RMB4.4 million of Listing expenses in 2017 as compared to 2016, and (ii) an increase of approximately RMB6.8 million in professional fees incurred subsequent to the Listing.

Research and development expenses

Research and development expenses increased by approximately 25.0% to approximately RMB47.2 million for the year under review from approximately RMB37.8 million for the corresponding period in 2016. This increase was mainly attributable to an increase in professional fees of approximately RMB8.8 million incurred for research and development of broadband PLC and SEM solutions.

Finance costs

During the year under review, the Group's finance costs amounted to approximately RMB0.3 million (2016: Nil).

Income tax credit/(expenses)

Income tax credit was recorded for the year under review which was attributable to (i) a change in applicable withholding tax rate in respect of PRC entities' distributable profits from 10% to 5% in 2017 as Risecomm (HK) Holdings Co. Limited, the parent company of the Group's PRC subsidiaries, became entitled to the preferential withholding tax rate of 5%, having been certified as the tax resident of Hong Kong under the "Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" as at December 31, 2017; while withholding tax rate of 10% was used in 2016, as a result, income tax credit of RMB5.5 million was recorded for the year under review, and (ii) a reversal of provision for permanent establishment tax risk was recorded for the year under review. The corporate income tax provision related to PRC permanent establishment tax risk arising in and prior to year 2012 is reversed as at December 31, 2017 as the related subsidiary of the Group has ceased to create a permanent establishment risk in the PRC and that the relevant PRC establishment tax risk has become remote. Thus, an income tax credit of RMB4.3 million was resulted in 2017.

Profit Attributable to Equity Shareholders of the Company

As a result of the above factors, the profit attributable to equity shareholders of the Company for the year under review decreased by approximately 78.1% to approximately RMB12.7 million (2016: approximately RMB57.7 million).

Liquidity and Financial Resources

Following the Listing, the Group's operations were mainly financed by internal resources including but not limited to existing cash and cash equivalents, anticipated cash flow from its operating activities and the net proceeds generated from the Listing. The Board believes that the Group's liquidity needs will be satisfied. With strengthened liquidity position, the Group is able to expand in accordance with its business strategy.

As at December 31, 2017, the Group's current assets amounted to approximately RMB415.2 million (as at December 31, 2016: approximately RMB308.6 million), with cash and cash equivalents totaling approximately RMB184.6 million (as at December 31, 2016: approximately RMB144.8 million). The cash and cash equivalents of the Group are principally held in RMB and USD. No borrowing arrangement was held by the Group as at December 31, 2017 (2016: Nil).

The Board of Directors assess the liquidity needs of the Group from time to time and may enter into borrowing arrangement with renowned banks or licensed financial institutions to enhance the Group's working capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total loans and borrowings divided by total equity. As at December 31, 2017, the Group's gearing ratio was not applicable as the Group did not have outstanding borrowing as at December 31, 2017 (2016: Not applicable).

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 2016, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Capital commitments

As at December 31, 2017, the Group had capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounted to approximately RMB0.2 million (as at December 31, 2016: approximately RMB4.0 million).

Contingent liabilities

As at December 31, 2017, the Group had no contingent liabilities (as at December 31, 2016: Nil).

Charge on assets

As at December 31, 2017, the Group had no charge of assets (as at December 31, 2016: Nil).

Material Acquisition and Disposal of Subsidiaries and Associated Companies

In December 2017, the Company entered into a conditional sale and purchase agreement to acquire a company, which indirectly holds the entire equity interest of a group of companies established in China, which is principally engaged in the provision of MSI for the petroleum and petrochemicals industry. This acquisition has not been completed as at the date of this report. Please refer to the announcements of the Company dated December 1, 2017, December 28, 2017, January 3, 2018, January 10, 2018, February 12, 2018 and March 23, 2018 for further details.

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

PROSPECTS

Although the Group had encountered the temporary headwind over the demand in the AMR business sector, it still aims to be a leading PLC technology company and turnkey solutions provider in China by offering a full range of products and solutions across its AMR business and its strategically selected areas of SEM applications. According to the Market Research report as disclosed in the Prospectus, the bidding volume of smart meter under State Grid is expected to pick up and increase to 87.7 million units by 2021 as smart meters in China are expected to enter into a new phase of upgrades from 2018 onward. The bidding volume of smart meter conducted by State Grid and Southern Grid is expected to grow at a CAGR of 11.5% from years 2017 to 2021. The management is still in confident that the demand will be soon recovered once the deployment of broadband PLC products is affirmed. Leveraging with the capabilities in PLC technology and research and development, the Group will keep its best endeavor to continue in expanding the market share and strengthen the Group's market position.

Furthermore, under the SEM business segment, the Group applies its proprietary PLC-based communications technology in its SEM products and solutions to facilitate data transmission and communications for remote controlling and monitoring energy consuming equipment and devices for better energy management and conservation. The Group considers PLC-based SEM systems to have significant market potential particularly in industrial and enterprise applications, for reason that PLC technology offers higher stability and cost effectiveness for remote controlling and monitoring energy consumption systems distributed over an extended land site or multiple buildings. Moreover, it is considered to be a sound and natural progression under the Group's core business and technologies, and can serve to further expand the Group's customer base, generate new revenue stream and further alleviate its reliance on China's power distribution sector.

Having successfully established business relationships with industrial players such as Foxconn Technology Group in the SEM business segment, the management has been looking for ways to expand its PLC-based products and solution offerings to other areas of industrial applications, as it is considered to be a sound and natural progression under the Group's core business and technologies. The Group is of the view that its core competency in PLC-based communications solutions possesses significant untapped potential for other industrial applications such as industrial automation systems, where production facilities, machineries and equipment are typically linked and powered by established power-lines and cables, essentially ready for implementation of PLC-based communications applications to enable/enhance automation, remote control and monitoring. With a national commitment of "China Manufacture 2025" and "Industry 4.0" to realize industrial upgrading promoted by the PRC government, the Group believed that the growth of China's industrial automation market would continue to be healthy given its relatively lower penetration rate and the rising cost of labour. As petrochemical enterprises are the pioneer of the manufacturing sector, major market participants are building smart oil fields, smart pipelines and smart factories. Therefore, in December 2017, the Company entered into a conditional sales and purchase agreement to acquire a company, which indirectly holds the entire equity interest in a group of companies established in China, which is principally engaged in the field of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry in view of tapping into the enormous market with significant growth potential.

According to the National Bureau of Statistics of China, China's petrochemical industry has invested a total of RMB216 billion during January to November 2017, where information system is an important component of such investments. The investment scale of the petrochemical industry in information system was approximately RMB22.66 billion in 2013 and it is estimated that it will reach RMB36.19 billion by 2018, representing a compound annual growth rate of approximately 10%. Along with the policy "《信息化和工業化深度融合專項行動計劃(2013–2018年)》" issued by the Ministry of Industry and Information Technology, it is expected that the PRC government will support the petrochemical industry to further develop its information system in order to reform the energy sector. This acquisition can induce potential synergies and benefits that can serve to expedite the Group's goal of expanding its non-AMR revenue contribution to achieve a more balanced revenue composition, lessen its exposure to the inherent risk of reliance on China's power grid ecosystem, and overall expand its revenue stream and further diversify its customer base.

This acquisition also opens up an enormous opportunity for the Group to have direct access for promoting its other SEM products and solutions to customers in the petroleum and petrochemicals industry (which is relatively closed and highly guarded, particularly the upstream segment). The Directors believed that, given the opportunity, the Group would be able to reduce significant time and uncertainty as well as substantial pre-marketing and pilot project costs to enter into this industry in the near to medium term. The acquisition has not been completed as at the date of this report.

Lastly, apart from the above acquisition, the Group plans to further invest in other areas in the SEM business, such as streetlight control, building energy management and photovoltaic power management to achieve revenue growth from this business segment in view of the increasing government policies and industry initiatives in support of energy conservation and environmental protection, especially those under the 13th Five-Year Plan of National Economy and Social Development issued by the PRC government. The Group also plans to strengthen its sales and marketing efforts, not only in AMR business but also in SEM business in order to expand its customer base for each of these strategically selected SEM applications.

The Group also intend to progressively expand the sales channels, conduct marketing and promotion activities to enhance brand recognition in both AMR and SEM markets. In March 2018, a member of the Group entered into a conditional share purchase agreement to acquire a company, which directly holds the entire equity interest in a company established in China, which is principally engaged in sales and distribution of electronic components, in particular for ICs and related products in China. The Group considers this acquisition is aligned with its business strategy in respect of the Group's expansion in AMR business markets. This share purchase agreement has not been completed as at the date of this report.

EXECUTIVE DIRECTORS

Yue Jingxing (岳京興) ("Mr. Yue"), aged 60, is an executive Director and chief executive officer of the Company responsible for overall strategic planning, research and development directions and business development of the Group.

Mr. Yue was appointed as a Director in February 2016, and was designated as an executive Director and the chief executive officer of the Company in May 2017. Mr. Yue has been a director of Risecomm (HK) Holding Co. Limited ("**Risecomm HK**"), Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), Beijing Risecomm Communication Technology Company Limited ("**Risecomm Beijing Comm**"), Shenzhen Risecomm Software Technology Company Limited, Wuxi Risecomm Communication Technology Company Limited ("**Risecomm Wuxi**"), Risecomm (HK) Technology Co. Limited ("**Risecomm HK Technology**") and Risecomm Co. Ltd. ("**Old Cayman**") since December 2015, January 2007, March 2014, April 2014, October 2010, December 2015 and September 2006, respectively. He has also been the president of Risecomm WFOE since May 2006.

Mr. Yue is one of the co-founders of the Group. He has more than 20 years of experience in IC design. Prior to founding the Group in May 2006, Mr. Yue worked in Hughes Network Systems (currently known as Hughes), a company in the United States engaged in delivering innovative network technologies, managed services, and solutions, as a senior technical manager responsible for hardware and ASIC design for telecommunication equipment from 1994 to 2005.

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

As of December 31, 2017, Mr. Yue was interested in certain shares of the Company ("**Shares**"). Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

Wang Shiguang (王世光) ("Mr. Wang"), aged 46, is an executive Director and the chairman of the Board responsible for overall sales and marketing strategy and market development directions of the Group. He was appointed as a Director in February 2016, and was designated as an executive Director and the chairman of the Board in May 2017. He is the spouse of Ms. Chen Junling, the general manager of Risecomm Beijing Comm. Mr. Wang has been the senior vice president of Risecomm WFOE and Risecomm Beijing Comm since June 2014 and a director of Old Cayman, Risecomm HK and Risecomm HK Technology since April 2015, March 2016 and March 2016, respectively.

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

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

As of December 31, 2017, Mr. Wang was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

Zhang Youyun (張友運) ("Mr. Zhang"), aged 58, is an executive Director responsible for overall operational and administrative management of the Group. Mr. Zhang was appointed as a Director in February 2016 and was designated as an executive Director in May 2017. Mr. Zhang has joined the Group as an administrative controller of Risecomm WFOE since June 2006. Mr. Zhang has been the executive vice president of Risecomm WFOE since April 2015 and a director of Changsha Risecomm Communication Technology Company Limited since December 2014. Mr. Zhang was a director of Risecomm (Beijing) Technology Company Limited from May to August 2016.

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

Mr. Zhang obtained a bachelor's degree in Industrial Electrical Automation from Hua Dong Textile Institute (華東紡織工學院) (currently known as Donghua University (東華大學) in the PRC in July 1982.

As of December 31, 2017, Mr. Zhang was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

NON-EXECUTIVE DIRECTORS

Ng Benjamin Jin-ping (吳俊平) (formerly known as Ngo Benjamin Chanh Dao) **("Mr. Ng"), aged 56**, is a non-executive Director responsible for advisory on capital investment direction and strategic capital structure of the Group. He was appointed as a Director in February 2016 and was designated as a non-executive Director in May 2017. Mr. Ng has joined the Group since April 2007 as a director of Old Cayman nominated by SB Asia Investment Fund II L.P. ("**SAIF**"). Mr. Ng has been a director of each of Risecomm HK, Risecomm WFOE, Risecomm HK Technology, Harvest Year Global Limited ("**Harvest Year**"), Prime Key Holdings Limited ("**Prime Key**") and Old Cayman since December 2015, May 2007, December 2015, March 2016, March 2016 and April 2007, respectively.

Mr. Ng has over 15 years of experience in the fund management and investment in Asia. Prior to joining the Group, Mr. Ng was the business development manager of Cisco, Systems (思科公司), an information technology support services provider, for the Asia Pacific region from March 1998 to May 2006. Mr. Ng was a partner from June 2006 to October 2012 and the general partner from November 2012 to December 2014 of SAIF Advisors Ltd., an advisory company for SAIF, and has become the advisory partner of SAIF Advisors Ltd. since January 2015 responsible for deal sourcing, execution and management of the investment.

Mr. Ng obtained a bachelor's degree in Electrical Engineering from The University of New South Wales in Australia in April 1985. He then obtained a master's degree in Business Administration from Macquarie University Australia in April 1995.

Mr. Ng was a non-executive director of Ozner Water International Holding Limited (stock code: 2014) from January 2014 to March 2017. He has been a director of Alchip Technologies, Limited, the shares of which are listed on the Taiwan Stock Exchange (Taiwan Stock Exchange stock code: 3661) since April 27, 2007.

Lau Wai Leung, Alfred (劉偉樑) ("Mr. Lau"), aged 37, was appointed as a non-executive Director on November 22, 2017. Mr. Lau is responsible for advisory on capital investment direction, corporate financing and strategic capital structure of the Group.

Mr. Lau has over 15 years of working experience in accounting, corporate finance, debt restructuring and private equity investment. He obtained a bachelor's degree in business administration from the City University of Hong Kong in 2002. He is a member of the American Institute of Certified Public Accountants and also certified as a certified public accountant in Washington State of the United States of America.

Mr. Lau has been an independent non-executive director of Sau San Tong Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8200) since December 2016. He is also a licensed person to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since July 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pan Song (潘嵩) ("Mr. Pan"), aged 45, was appointed as an independent non-executive Director on May 16, 2017. Mr. Pan is responsible for providing independent judgment and scrutinizing the performance of the Group.

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

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

Chen Yong (陳永) ("Mr. Chen"), aged 62, was appointed as an independent non-executive Director on May 16, 2017. Mr. Chen is responsible for providing independent judgment and scrutinizing the performance of the Group.

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

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

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

Ong King Keung (王競強) ("Mr. Ong"), aged 42, was appointed as an independent non-executive Director on May 16, 2017. Mr. Ong is responsible for providing independent judgment and scrutinizing the performance of the Group.

Mr. Ong obtained a bachelor degree in accountancy from the Hong Kong Polytechnic University and a master degree in corporate finance from the City University of Hong Kong. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is currently a director of a professional audit firm in Hong Kong. He has over 15 years of experience in auditing and accounting industry. Mr. Ong is an independent non-executive director of China Water Affairs Group Limited (stock code: 855) and Tech Pro Technology Development Limited (stock code: 3823) respectively, their respective shares of which are listed on the main board of the Stock Exchange. Mr. Ong is also an independent non-executive director of Bingo Group Holdings Limited (stock code: 8220), and My Heart Bodibra Group Limited (stock code: 8297) respectively, their respective shares of which are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange. Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (stock code: 8268), the shares of which are listed on the GEM of the Stock Exchange, since December 2014 and has been subsequently re-designated as a non-executive director since December 2015.

Mr. Ong was an independent non-executive director of Koala Financial Group Limited (formerly Sunrise (China) Technology Group Limited) (stock code: 8226) for the period from February 2017 to September 2017 and China Candy Holdings Limited (stock code: 8182) for the period from February 2016 to September 2017 respectively, the shares of which are listed on the GEM of the Stock Exchange.

SENIOR MANAGEMENT OF THE GROUP

Leung Ka Lok (梁家樂) ("Mr. Leung"), aged 47, was appointed as the chief financial officer and company secretary of the Company on May 16, 2017. Mr. Leung has been a director of each of Harvest Year and Prime Key since March 2016.

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

Gu Jian (顧建) ("Dr. Gu"), aged 60, is the chief technology officer and vice president of Old Cayman and Risecomm WFOE, general manager of Risecomm Wuxi and Risecomm HK Technology responsible for the IC product research and development and overseas market promotion of turn-key control system solutions for streetlights of the Group. Dr. Gu has been the chief technology officer and vice president of Old Cayman and Risecomm WFOE since July 2006 and June 2006, respectively, and the general manager of Risecomm Wuxi and Risecomm HK Technology since September 2010 and January 2016, respectively.

Dr. Gu has over 20 years of research and application experience in the communications technology. Dr. Gu was an assistant professor in information transmission research group of Department of Information and Electronic Engineering (currently known as college of Information Science & Electronic Engineering) of Zhejiang University from 1984 to 1987. From 1994 to 2000, Dr. Gu worked as a staff engineer at CommQuest Technologies, Inc. (subsequently merged with IBM), a company principally engaged in designing and marketing advanced semiconductor chipsets for wireless communications applications, responsible for designing GSM chips system. From 2000 to 2004, Dr. Gu was an owner of 4D Connect, Inc., a U.S. company principally engaged in the development of wireless communication technology, and he served as its director and chief executive officer focused on the research of OFDM technology in wireless LAN and 4G mobile communication system. Dr. Gu was one of the founders of Shenzhen Haoyuan Technology Co. Ltd. and ceased to be its shareholder in July 2006.

Dr. Gu obtained a bachelor's degree in Mathematics from Hangzhou University (currently known as Zhejiang University (Xixi Campus)) in the PRC in January 1982. He then obtained a master's degree in Engineering from Zhejiang University in the PRC in December 1984 and a doctorate of Philosophy from the University of Maryland in the United States in May 1993. He is a member of IEEE-USA (Institute of Electrical and Electronics Engineers).

Chen Junling (陳俊玲) ("Ms. Chen"), aged 45, is the general manager of Risecomm Beijing Comm responsible for overall supervision of sales and marketing of the AMR business. She has joined the Group as the general manager of Risecomm Beijing Comm since June 2014. She is the spouse of Mr. Wang Shiguang, who is the chairman of the Board and an executive Director.

Ms. Chen has over 15 years of experience in electronics and power meter sales and marketing.

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

Zhang Baojun ("Mr. Zhang BJ"), aged 50, is the vice president and chief engineer of Risecomm WFOE responsible for product research and development and promotion of the AMR business. He has joined the Group as the vice president and chief engineer of Risecomm WFOE since June 2012. Mr. Zhang BJ has over 25 years of experience in the electricity industry. Mr. Zhang BJ commenced his career in Harbin Electrical Instruments Research Institute, an institute engaged in, among others, development of instruments and automation measurement and control systems in 1989 as an engineer until 1995. From 1995 to 2005, he worked as a research and development manager, assistant general manager and chief engineer, respectively at Heilongjiang Longjiang Electric Co., Ltd., a company engaged in, among others, the development of mechatronics, instruments and automatic control technology and related products. From July 2005 to May 2012, Mr. Zhang BJ worked as the chief engineer in Shenzhen RMS Technology. He was also a shareholder, executive director and general manager of Shenzhen RMS Technology prior to joining the Group in June 2012.

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

Han Yuan (韓源) ("Mr. Han"), aged 60, is the vice president of Risecomm WFOE and general manager of Yantian branch of Risecomm WFOE responsible for overall supervision of the Group's production, product quality assurance and raw material procurement. Mr. Han has joined the Group as the vice president of Risecomm WFOE and has been the general manager of Yantian branch of Risecomm WFOE since June 2012.

Mr. Han has over 30 years of experience in the energy metering industry. From 1982 to 2003, he worked as the engineer and deputy officer of the energy studio, and deputy director and director of the research institute at the Mechanical Department of Harbin Electrical Instruments Research Institute, respectively. From 2003 to 2007, Mr. Han worked at Shenzhen Star Instrument Co., Ltd., a company engaged in, among others, the development of smart meters, automatic meter reading system and equipment and power monitor system, as a sales director, the deputy general manager, general manager and technology director of the Meter Division, respectively. From July 2007 to May 2012, Mr. Han worked as the deputy general manager responsible for production and after sales services of power line carrier modules in Shenzhen RMS Technology.

Mr. Han obtained a bachelor's degree in Engineering (Electromagnetic Measurement and Instruments) from Harbin Institute of Electrical Engineering (currently known as Harbin University of Science and Technology) in the PRC in July 1982. Mr. Han was awarded by the Bureau of Mechanical Engineering of the State as the senior engineer (professor level) in December 1998. The design of "Joint Design of Series Products of Alternating Current Electric Meter" by Mr. Han was awarded the second prize of National Technology Improvement award granted by the National Technology Committee in July 1988. Mr. Han is a committee member of the National Electric Instrument Technical Committee of Standardization and a standing director of the 7th Council of the Electromagnetic Measuring and Information Processing Instruments Branch of China Instrument and Control Society.

Liu Ming (劉明) ("Mr. Liu"), aged 47, is the vice president of Risecomm WFOE responsible for sales management of the smart energy management products and solutions. He joined the Group in June 2006 as the sales and marketing director of Risecomm WFOE and has been the vice president of Risecomm WFOE since February 2009. Mr. Liu has also been a director of Risecomm Beijing Tech since May 2016.

Mr. Liu has over 20 years of experience in the intelligent technology industry. From 1994 to 2003, Mr. Liu worked in Shenzhen Kaifa Technology Co., Ltd., a company principally engaged in manufacturing electronic products and listed on the Shenzhen Stock Exchange (stock code: 000021), as a marketing manager. From 2003 to 2005, Mr. Liu worked as a deputy general manager in Shenzhen Haoyuan Technology Co. Ltd. From 2005 to May 2006, Mr. Liu worked in Shenzhen Haoyuan Electronics Co., Ltd., as a deputy general manager.

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

Chen Shuiying (陳水英) ("Ms. Chen SY"), aged 43, is the financial controller of Risecomm WFOE responsible for financial system management of the Group. She has joined the Group as the financial controller of Risecomm WFOE since March 2013. Ms. Chen SY has been a director of each of Risecomm HK, Risecomm HK Technology and Risecomm Changsha since December 2015.

Ms. Chen SY has over 15 years of experience in the areas of finance and accounting. From 1997 to 2001, Ms. Chen SY worked as an account supervisor at Shenzhen Guanlanhu Golf Club Co., Ltd., a golf and leisure resort operator in the PRC. From November 2001 to October 2008, Ms. Chen SY worked as a senior finance manager at Sylva Industries Limited, a Hong Kong company engaged in the manufacturing of rechargeable batteries, responsible for financial analysis. From November 2008 to October 2012, Ms. Chen SY worked as the finance manager at ASV Stuebbe Pumps & Valves (Shenzhen) Co., Ltd., a company principally engaged in manufacturing and development of plastic pumps, valves and instrumentation systems, responsible for overall financial management of all subsidiaries in Asia.

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

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

Directors' Report

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 19, 2015 under the Companies Law of the Cayman Islands. The Company acts as an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 12 and 13 to the consolidated financial statements, respectively.

SHARE ISSUANCE

The Shares were listed on the Main Board of the Stock Exchange on June 9, 2017, by issuing 200,000,000 ordinary Shares, with the offer price of HK$1.00 per Share (excluding brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005%).

On June 21, 2017, the Over-allotment Option (as defined in the Prospectus) was exercised by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (as defined in the Prospectus)) in respect of 10,000,000 additional ordinary Shares at the offer price of HK$1.00 per Share (excluding brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005%).

The Company raised a net proceed of approximately HK$158.2 million in aggregated on the above two events.

On December 8, 2017, the Company issued 877,303 ordinary Shares to an employee pursuant to the exercise of the share options granted under the Pre-IPO Share Option Scheme adopted by the Company on August 25, 2016 (the "**Pre-IPO Share Option Scheme**").

SHARE CAPITAL

As of December 31, 2017, the total issued share capital of the Company was approximately HK$81,087, divided into 810,877,303 ordinary Shares of nominal value of HK$0.0001 each. Details of movements during the year under review in the share capital of the Company are set out in note 22 to the consolidated financial statements.

DEBENTURES IN ISSUE

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

BUSINESS REVIEW

A fair review of the business of the Group during the year under review, a discussion about the Group's future business development and an analysis of the Group's performance using financial key performance indicators are set out in the sections headed "Business Review" and "Prospects" in the "Management Discussion and Analysis" in this report and a discussion of the principal risks and uncertainties facing by the Group is included in this section and notes 23 to the consolidated financial statements. The review forms part of this Directors' Report.

ENVIRONMENT PROTECTION

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

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

This Group received ISO14001:2004 environmental management system certification, which is valid to December 2018 and subject to renewal. During the year under review, the Group did not receive any notice or warning in relation to pollution in respect of its production, nor had the Group been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC.

RELATIONSHIP WITH EMPLOYEES

The Group's success depends on its ability to attract, retain and motivate qualified personnel. The Group has generally been able to attract and retain qualified personnel and maintain a stable core management team. The Group is dedicated to the training and development of its employees. The Group leverages its R&D capabilities and other resources to ensure that each employee maintains a current skill-set through continuous training. The Group provides introductory training and orientation for all new employees, as well as on-the-job training to continually improve its employees' technical, professional and management skills.

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

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

The Group has received OHSAS18001:2007 certification for occupational health and safety management, which is valid to December 2018 and subject to renewal. The Group has implemented safety measures at its product assembly hubs to ensure compliance with applicable regulatory requirements and to minimize the risk of injury of employees. The Group conducts periodic inspections of operating facilities to ensure that its product assembly operations are in compliance with existing laws and regulations. Furthermore, the Group requires new employees to receive work safety training.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

RISK FACTORS

The main activities of the Group include R&D, production and sales of PLC products. During the year under review, the Group's AMR business were largely affected by the market environments in China's AMR deployment and procurement paces of State Grid and Southern Grid. The long-term business and profitability growth of the Group are expected to be continuously impacted by variables of major qualitative factors (such as the development of political and economic policies of China). The Group's current operations and development are under influence of certain factors mainly including:

PLC Technology in AMR business in China

The Group designs and develops AMR products to a large extent for sale to meter manufacturers which in turn supply smart meters to power grid companies in China, as well as for sale to power grid companies, both directly and indirectly through their designated entities and from time to time, other technology companies. The Group relies on power grid companies to continuously select and adopt the communications protocols of its products as part of the technical specifications of the AMR devices they deploy. These technical specifications may correspond to the features of any competing communications protocols and products offered by different PLC technology companies, and power grid companies may select different communications protocols for different type of AMR devices in different grid locations. Power grid companies may consider a variety of factors in selecting the adopted communications protocols for its deployment of new AMR systems or upgrades of existing AMR systems.

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

PLC Technology in SEM business in China

The PLC technology is still at an early stage of development for various SEM applications in China. The PLC technology is currently not as popular as other wired or wireless technologies for the building energy management applications and the PLC-based photovoltaic power management for micro-inverters has relatively limited adoption. To manage the effect from SEM business risk, the Group continues to enhance its SEM product development and sales and marketing to accelerate the growth of its SEM business.

Exchange rate risk

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

FINAL DIVIDEND

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

On March 31, 2016, the Company approved cash dividends of USD13,000,000 (equivalent to RMB83,996,000) payable to its then equity shareholders. The above dividends were fully paid in May 2016.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at December 31, 2017 comprised the share premium and accumulated losses of RMB147,842,000 (2016: N/A. No distributable profits).

DIRECTORS

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

Executive directors:
Mr. Wang Shiguang *(Chairman)*
Mr. Yue Jingxing *(Chief Executive Officer)*
Mr. Zhang Youyun

Non-executive directors:
Mr. Ng Benjamin Jin-ping
Mr. Lau Wai Leung, Alfred (appointed on November 22, 2017)

Independent non-executive directors:
Mr. Ong King Keung
Mr. Chen Yong
Mr. Pan Song

DIRECTORS' PROFILES

Directors' profiles are set out on page 17 to 21 of this report.

Pursuant to Article 83(3) of the Articles of Association of the Company (the "**Articles**"), Mr. Wang Shiguang, Mr. Yue Jingxing, Mr. Zhang Youyun, Mr. Ng Benjamin Jin-ping and Mr. Lau Wai Leung, Alfred (the "**Retiring Directors**") will retire at the forthcoming annual general meeting ("**AGM**"). Except for Mr. Ng, all Retiring Directors, being eligible, will offer themselves for re-election at the AGM.

Mr. Wang Shiguang, one of the Retiring Directors, has expressed his will to be re-designated from executive Director to non-executive Director of the Company. As such, he will offer himself for electron as non-executive Director of the Company instead of executive Director at the AGM.

Pursuant to Article 84(1) of the Articles, Mr. Ong King Keung will retire at the AGM, and being eligible, will offer himself for election at the AGM.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Director's biographical details since the date of the Prospectus of the Company, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of Change	
Mr. Chen Yong	Mr. Chen has ceased to be the minister of the United Font Work department (統戰部) of Shandong University in December 2015.	
Mr. Ong King Keung	Mr. Ong has the following changes in his biographical details:	
	Company Name	**Change Details**
	China Candy Holdings Limited (stock code: 8182)	resigned as an independent non-executive director on September 14, 2017
	KOALA Financial Group Limited (stock code: 8226)	resigned as an independent non-executive director on September 15, 2017
	My Heart Bodibra Group Limited (stock code: 8297)	appointed as an independent non-executive director on December 29, 2017

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

PERMITTED INDEMNITY PROVISION

Under the Articles, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors since the Listing Date and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. Since the Listing Date and up to December 31, 2017, no claims were made against the Directors.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive directors (including independent non-executive directors), except for Mr. Lau Wai Leung, Alfred who was appointed as non-executive director on November 22, 2017 with no director's fee, entered into a letter of appointment with the Company for an initial term of three years commencing form Listing Date. Mr. Lau's initial term of appointment was commenced from November 22, 2017 until the AGM of the Company. Either the Company or the non-executive director (including independent non-executive director) may terminate the appointment by giving the other party a prior notice of three months in writing.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 25(b) to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and in the consolidated financial statements, no controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year under review.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements

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

As of December 31, 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

Name of Director	Relevant company	Nature of interest	Number of Shares in the relevant company (Note 1)	Approximate Percentage* of interest
Mr. Yue Jingxing	The Company	Interest in a controlled corporation (Note 2(i))	91,943,624 (L)	11.34%
		Beneficial owner (Note 2(ii))	863,587 (L)	0.11%
Mr. Wang Shiguang	The Company	Interest of spouse (Note 3)	169,527,845 (L)	20.91%
Mr. Zhang Youyun	The Company	Interest in a controlled corporation (Note 4(i))	940,859 (L)	0.12%
		Beneficial owner (Note 4(ii))	1,841,423 (L)	0.23%

* The percentage represents the number of shares/underlying shares involved divided by the number of the issued Shares as of December 31, 2017.

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of the Company.

(2) Mr. Yue is the sole shareholder of Seashore Fortune Limited ("**Seashore Fortune**") which holds 91,943,624 Shares. By virtue of the SFO, Mr. Yue is deemed to be interested in the Shares in which Seashore Fortune is interested. The disclosed interest represents (i) the interest in the Company held by Seashore Fortune; and (ii) options held by Mr. Yue Jingxing under the Pre-IPO Share Option Scheme.

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

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

Save as disclosed above, as of December 31, 2017, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As of December 31, 2017, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executives of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate Percentage* of Company's issued share capital
Seashore Fortune	Beneficial owner	91,943,624 (L)	11.34%
Ms. Chen Junling	Interest in a controlled corporation (Note 2)	169,527,845 (L)	20.91%
Magical Success Holdings Limited ("**Magical Success**")	Beneficial owner	169,527,845 (L)	20.91%
SAIF	Beneficial owner (Note 3)	197,340,537 (L) (Note 5)	24.34%
SAIF II GP L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	24.34%
SAIF Partners II L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	24.34%
SAIF II GP Capital Ltd.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	24.34%
Mr. Andrew Y. Yan	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	24.34%
Cisco System, Inc	Interest in a controlled corporation (Note 4)	197,340,537 (L) (Note 5)	24.34%

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate Percentage* of Company's issued share capital
Dongxing Securities (Hong Kong) Financial Holdings Limited	Beneficial owner	45,000,000 (L) (Note 5)	5.55%
Lead Capital Fund III, L.P.	Beneficial owner	64,960,000 (L) (Note 5)	8.01%

* The percentage represents the number of shares/underlying shares involved divided by the number of the issued Shares as of December 31, 2017.

Notes:

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

(2) Ms. Chen Junling is the sole shareholder of Magical Success which held 169,527,845 Shares. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested.

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

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

(5) Based on the disclosure of interests forms submitted by these substantial shareholders respectively as of December 31, 2017.

Save as disclosed above, as of December 31, 2017, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENT

During the year under review, other than the Share Option Schemes as set out in the paragraph headed "Share Option Schemes" of this Directors' Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year under review.

SHARE OPTION SCHEMES

Share Option Scheme

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

The Share Option Scheme will remain in force for a period of 10 years after the Listing Date.

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "**Scheme Limit**"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). As at the date of this Director's Report, the total number of Shares available for issue under the Share Option Scheme was 80,000,000 Shares, representing about 9.87% of the issued share capital of the Company. The Board may renew the Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

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

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

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

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

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

No share options have been granted, exercised or cancelled by the Company under the Share Option Scheme since its adoption and up to December 31, 2017.

Pre-IPO Share Option Scheme

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

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

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

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

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

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

HK$1.00 was payable by each grantee as consideration for grant of the options.

The Pre-IPO Share Option Scheme will remain in force for a period of 10 years after its adoption date.

Detail of movements of the options granted under the Pre-IPO Share Option Scheme during the period commencing from the Listing Date to December 31, 2017 are as follows:

Directors

Name of Directors	Date of grant	Exercisable period	Number of Shares underlying the options granted as of the Listing Date	Exercise Price per Share (Note 1) US$	Since the Listing Date to December 31, 2017				Outstanding at December 31, 2017
					Granted	Exercised	Cancelled	Lapsed	
Mr. Yue Jingxing	August 25, 2016	From August 25, 2016 to March 25, 2024 (Note 2)	863,587	0.0003	–	–	–	–	863,587
Mr. Zhang Youyun	August 25, 2016	From August 25, 2016 to March 25, 2024 (Note 3)	1,841,423	0.0003	–	–	–	–	1,841,423
	Sub-total		**2,705,010**		**–**	**–**	**–**	**–**	**2,705,010**

Employees

Date of grant	Exercisable period	Number of Shares underlying the options granted as of the Listing Date	Exercise Price per Share (Note 1) US$	Since the Listing Date to December 31, 2017				Outstanding at December 31, 2017
				Granted	Exercised	Cancelled	Lapsed	
August 25, 2016	From August 25, 2016 to December 31, 2017	2,662,585	0.0003	–	–	–	(2,662,585)	–
	From August 25, 2016 to March 25, 2024 (Note 4)	10,842,822	0.0003	–	(877,303)	–	–	9,965,519
	Sub-total	**13,505,407**		**–**	**(877,303)**	**–**	**(2,662,585)**	**9,965,519**
	Total	**16,210,417**		**–**	**(877,303)**	**–**	**(2,662,585)**	**12,670,529**

Notes:

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

(2) (i) Options to subscribe for 255,901 Shares are exercisable at any time from August 25, 2016 until March 25, 2024; and (ii) The remaining options to subscribe for 607,686 Shares are exercisable at any time from the date when the options become vested until March 25, 2024. Such options become vested in equal monthly installments from the last day in each month during the period from August 2016 to February 2018.

(3) (i) Options to subscribe for 545,814 Shares are exercisable at any time from August 25, 2016 until March 25, 2024; and (ii) The remaining options to subscribe for 1,295,609 Shares are exercisable at any time from the date when the options become vested until March 25, 2024. Such options become vested in equal monthly installments from the last day in each month during the period from August 2016 to February 2018.

(4) (i) Options to subscribe for 6,216,449 Shares are exercisable at any time from August 25, 2016 to March 25, 2024; and (ii) The remaining options to subscribe for 4,626,373 Shares are exercisable at any time from the date when the options become vested until March 25, 2024. Such remaining options become vested in equal monthly installments from the last day in each month during the period from August 2016 to February 2018.

No further options were granted under the Pre-IPO Share Option Scheme on or after the Listing Date as the right to do so terminated upon the Listing.

Save as disclosed above, no other Pre-IPO Share Options were exercised, cancelled or lapsed during the period after the Listing Date and up to December 31, 2017.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 5(b)(i) to the consolidated financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 25 to the consolidated financial statements. Transaction as set out in note 25(b) to the consolidated financial statements constitute a continuing connected transaction of the Group during the year under review which is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as such, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACT

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

DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Mr. Yue, Seashore Fortune, Mr. Wang, Mr. Zhang, Glorious Lead, Ms. Chen Junling, Magical Success, Dr. Gu Jian, Hope Thrive, Mr. Han Yuan, Key Surplus, Mr. Zhang Baojun, Golden Shell, Mr. Liu Ming and Rainbow Dawn (the "**Covenantors**") in respect of the compliance with the provisions of the deed of non-competition (the "**Deed of Non-competition**"), entered into between the Covenantors and the Company as set out in the section headed "Directors, Senior Management and Employees — Deed of Non-competition" of the Prospectus from the Listing Date and up to December 31, 2017. Each of the Covenantors has confirmed and declared that, since the Listing Date and up to December 31, 2017, he/it had strictly complied with the Deed of Non-competition without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Deed of Non-competition and consider that the terms of the Deed of Non-competition have been complied with by each of the Covenantors since the Listing Date and up to December 31, 2017.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

During the period commencing from the Listing Date and up to December 31, 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Shares since Listing Date and up to December 31, 2017.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year under review, the Group's largest customer accounted for approximately 16.3% (2016: approximately 12.9%) and the aggregated revenue attributable to the five largest customers accounted for approximately 32.4% (2016: approximately 28.3%) of the total revenue of the Group.

During the year under review, the Group's largest supplier (including outsourced service provider) accounted for approximately 20.0% (2016: approximately 22.4%) and the aggregated purchases (including outsourced service fees) attributable to the Group's five largest suppliers (including outsourced service providers) accounted for approximately 58.6% (2016: approximately 66.1%) of the total purchases (including outsourced service fees) of the Group.

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

SUFFICIENCY OF PUBLIC FLOAT

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

USE OF PROCEEDS FROM INITIAL GLOBAL OFFERING

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

During the period commencing from the Listing Date to December 31, 2017, the net proceeds had been applied for as follows:

	Actual Net proceeds HK$ 'million	Amount utilized as at December 31, 2017 HK$ 'million	Unutilized net proceeds as at December 31, 2017 HK$ 'million
Research and development of the PLC technology	95.7	17.8	77.9
Sales and marketing	32.0	1.3	30.7
Repayment of an entrusted bank loan	14.7	14.7	–
Working capital and general corporate purposes	15.8	15.8	–
	158.2	49.6	108.6

As at the date of this report, the Company does not anticipate any change to the above plan of use of proceeds.

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, 2017, the Group had an aggregate of 410 employees (as at December 31, 2016: 406 employees). The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the directors with reference to individual performance and current market salary scale.

The Group is dedicated to the training and development of its employees. The Group leverages its research and development capabilities and other resources to ensure that each employee maintains a current skill-set through continuous training. The Group provides introductory training and orientation for all new employees, as well as on-the-job training to continually improve its employees' technical, professional and management skills.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The register of members of the Company will be closed from Monday, May 21, 2018 to Friday, May 25, 2018 (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, May 25, 2018 (the "**2018 AGM**") or any adjournment thereof. In order to be qualified for attending and voting at the 2018 AGM, unregistered holders of Shares should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Friday, May 18, 2018.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events to cause material impact on the Group from the end of the year under review to the date of this report are set out in note 27 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past four financial years are set out on page 128 of this report.

AUDIT COMMITTEE

The Audit Committee has discussed with the management of the Group and reviewed this report and the audited annual financial results of the Group for the year under review, including the accounting principles and practices adopted by the Group, and discussed financial related matters.

AUDITOR

A resolution will be submitted to the 2018 AGM to re-appoint KPMG as auditor of the Company.

On behalf of the Board

Mr. Yue Jingxing
Chief Executive Officer and Executive director

Hong Kong, March 28, 2018

CORPORATE GOVERNANCE PRACTICES

The Board of directors (the "**Board**") of the Company is committed to maintaining good corporate governance standards.

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

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

The Board is of the view that throughout the period from the Listing Date to December 31, 2017, the Company has complied with all the code provisions as set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' transactions in securities of the Company (the "**Company's Code**") on terms no less exacting than the required standard as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company's Code throughout the period from the Listing Date to December 31, 2017.

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

BOARD OF DIRECTORS

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

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Wang Shiguang *(Chairman and Chairman of Nomination Committee)*
Mr. Yue Jingxing *(Chief Executive Officer and Member of Remuneration Committee)*
Mr. Zhang Youyun

Non-executive Directors

Mr. Ng Benjamin Jin-ping
Mr. Lau Wai Leung, Alfred

Independent Non-executive Directors

Mr. Ong King Keung *(Chairman of Audit Committee and Remuneration Committee, and Member of Nomination Committee)*
Mr. Chen Yong *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. Pan Song *(Member of Audit Committee)*

The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 17 to 24 of the Annual Report for the year ended December 31, 2017.

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

During the period from the Listing Date to December 31, 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

Appointment and Re-election of Directors

The non-executive directors (including independent non-executive directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

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

Responsibilities of the Directors

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

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

Directors	Type of Training (Note)
Executive Directors	
Mr. Wang Shiguang	A
Mr. Yue Jingxing	A
Mr. Zhang Youyun	A
Non-Executive Directors	
Mr. Ng Benjamin Jin-ping	A
Mr. Lau Wai Leung, Alfred	A, B
Independent Non-Executive Directors	
Mr. Ong King Keung	A
Mr. Chen Yong	A, B
Mr. Pan Song	A

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

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

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

Audit Committee

The Audit Committee consists of three independent non-executive Directors namely Mr. Ong King Keung (chairman), Mr. Chen Yong and Mr. Pan Song.

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

As the Company was listed on June 9, 2017, only one meeting was convened by the Audit Committee during the period from the Listing Date to December 31, 2017 to review the interim financial results for the six months ended June 30, 2017 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, engagement of non-audit services and relevant scope of works, and arrangements for employees to raise concerns about possible improprieties.

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

Remuneration Committee

The Remuneration Committee consists of two independent non-executive directors, namely Mr. Ong King Keung (chairman) and Mr. Chen Yong, and one executive director namely Mr. Yue Jingxing.

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

As the Company was listed on June 9, 2017, no Remuneration Committee meeting was held during the period from the Listing Date to December 31, 2017.

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

Remuneration band (HK$)	Number of individuals
HK$500,001–HK$1,000,000	4
HK$1,000,001–HK$1,500,000	1
HK$1,500,001–HK$2,000,000	1
HK$2,000,001–HK$2,500,000	1

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

Nomination Committee

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

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

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

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

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

As the Company was listed on June 9, 2017, no Nomination Committee meeting was held during the period from the Listing Date to December 31, 2017.

Corporate Governance Functions

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

During the period from the Listing Date to December 31, 2017, the Board of Directors had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

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

During the period from the Listing Date to December 31, 2017, the Board held four board meetings and the Audit Committee held one meeting.

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

	Attendance/Number of Meetings	
Name of Director	Board	Audit Committee
Mr. Wang Shiguang	4/4	N/A
Mr. Yue Jingxing	4/4	N/A
Mr. Zhang Youyun	4/4	N/A
Mr. Ng Benjamin Jin-ping	4/4	N/A
Mr. Lau Wai Leung, Alfred (appointed on November 22, 2017)	2/2	N/A
Mr. Ong King Keung	3/4	1/1
Mr. Chen Yong	4/4	1/1
Mr. Pan Song	3/4	1/1

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management and internal controls

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

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

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

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

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

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

Based on the risk management and internal control systems established and maintained by the Group, the internal audit findings, the reviews by external professional firm on internal audit of the Group, the review of the effectiveness of risk management and internal control systems performed by the management, respective Board Committees and the Board, the Board is of the view that the Group has maintained effective and adequate risk management and internal control systems during the period from the Listing Date to December 31, 2017.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2017.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 53 to 59.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company, KPMG, in respect of audit and non-audit services provided to the Group during the year ended December 31, 2017 was analyzed below:

Service Category	Fees paid/payable RMB
Audit services	
— audit services on 2017 annual financial statements	1,580,000
— review of interim results for the six months ended June 30, 2017	300,000
— related to the Listing	1,548,800
Non-audit services	–
	3,428,800

COMPANY SECRETARY

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

During the year ended December 31, 2017, Mr. Leung has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to Unit No. 2, 12/F., Emperor Group Centre, No. 288 Hennessy Road, Hong Kong, to require an Extraordinary General Meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: Unit No. 2, 12/F., Emperor Group Centre, No. 288 Hennessy Road, Hong Kong
(For the attention of the Company Secretary)

Email: ir@risecomm.com.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. No annual general meeting was held during the period from the Listing Date to December 31, 2017.

During the period from the Listing Date to December 31, 2017, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the website of the Company at **www.risecomm.com.cn** and the website of the Stock Exchange at **www.hkex.com.hk**.

Independent auditor's report to the shareholders of
Risecomm Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Risecomm Group Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 80.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises income from the sale of power-line-communication ("PLC") products, income from the provision of maintenance services in connection with the deployment and upgrade of Auto Meter Reading ("AMR") systems by power grid companies in Mainland China and income from the sale of smart energy management products and solutions for PLC applications relating to energy saving and environmental protection. Management evaluates the terms of individual contracts in order to determine the appropriate timing for revenue recognition. Based on the terms of the sales contracts, revenue from sales of PLC products and smart energy management products and solutions is recognised when the risks and rewards associated with ownership of the goods have been transferred to the customers which is generally considered to be when the goods are delivered to the customer's designated premises and accepted by these customers. Revenue from the provision of AMR maintenance services is recognised when the service is rendered and accepted by customers and there are no further performance obligations. We identified recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over revenue recognition; • inspecting customer contracts, on a sample basis, to identify terms and conditions relating to the customers' acceptance of the goods and services provided by the Group and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts and delivery documents with the customers' acknowledgement of acceptance of the goods and services provided by the Group to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; • comparing, on a sample basis, revenue transactions recorded before and after the reporting date with underlying delivery documents with the customers' acknowledgement of acceptance of the goods and services provided by the Group and other relevant documentation to determine whether the related revenue had been recognised in the appropriate financial period; and • inspecting underlying documentation for manual journal entries relating to revenue raised during the year which met specific risk-based criteria.

Recoverability of trade receivables

Refer to note 16 to the consolidated financial statements and the accounting policies on pages 72 to 74 and page 76.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2017, the Group's gross trade receivables amounted to RMB 141 million, against which provisions for doubtful debts of RMB 5 million were recorded. The Group's provisions for doubtful debts are based on management's estimate of the estimated credit losses, which takes into account the ageing of trade receivable balances, the repayment history of the Group's individual customers, current market conditions and customer-specific conditions, all of which involve a significant degree of management judgement. The Group's provisions for doubtful debts include a specific element based on individual trade receivables and a collective element based on historical experience adjusted for certain current factors. We identified the recoverability of trade receivables as a key audit matter because determining the level of provisions for doubtful debts requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and making provisions for doubtful debts; • evaluating the Group's policy for making provisions for doubtful debts with reference to the requirements of the prevailing accounting standards; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the basis of management's judgement about the recoverability of material overdue trade receivable balances and evaluating the provisions for doubtful debts made by management for these balances with reference to the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances and historical and post year end payment records; • assessing the assumptions and estimates made by the management for the provisions for doubtful debts calculated based on a collective assessment and recalculating the Group's collective provisions for doubtful debts with reference to the Group's policy for collective assessment; • assessing the historical accuracy of management's process for making provisions for doubtful debts by comparing the provisions made by management as at 31 December 2016 with the actual losses and recoveries in respect of trade receivables as at 31 December 2016 during the current financial year; and • inspecting, on a sample basis, cash receipts from customers subsequent to the reporting date relating to trade receivable balances as at 31 December 2017.

Capitalisation of development costs

Refer to note 11 to the consolidated financial statements and the accounting policies on page 72.

The Key Audit Matter	How the matter was addressed in our audit
The Group capitalised certain costs incurred in the development of its broadband PLC technology within intangible assets during the year ended 31 December 2017 when they met the criteria for capitalisation as set out in the prevailing accounting standards. Significant management judgement is required to be exercised in determining whether technical and commercial feasibility has been achieved for the broadband PLC technology project and in identifying the relevant costs to be capitalised. As at 31 December 2017, the carrying amount of capitalised development costs was RMB 7 million. Amortisation of such capitalised development costs had not commenced as at 31 December 2017 as the development project was still in progress at that date. We identified capitalisation of development costs as a key audit matter because of the significant level of management judgement involved in determining when the criteria for capitalisation of development costs are met and in identifying the relevant costs eligible for capitalisation.	Our audit procedures to assess the capitalisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to the identification, capturing and capitalisation of eligible development costs; • evaluating management's assessment of the technical and commercial feasibility of the development project by discussing with the Group's internal specialists the commercial applications of the technology and inspecting the related feasibility report and product testing report prepared by the Group's internal specialists and external research and development consultants, respectively; and • comparing development costs capitalised during the year, on a sample basis, with relevant underlying documentation, which included contracts with external consultants, acceptance reports by phases and timesheet data for internal specialists, to assess whether these items met the criteria for capitalisation of development costs with reference to the requirements of the prevailing accounting standards.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Alex M.K. Shum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

For the year ended December 31, 2017 (Expressed in Renminbi)

	NOTE	2017 RMB'000	2016 RMB'000
Revenue	3	317,333	390,210
Cost of sales		(171,606)	(194,947)
Gross profit		145,727	195,263
Other income	4	16,314	13,568
Sales and marketing expenses		(55,171)	(60,456)
General and administrative expenses		(56,350)	(35,311)
Research and development expenses	5(c)	(47,202)	(37,765)
Profit from operations		3,318	75,299
Finance costs	5(a)	(276)	–
Share of loss of associate		(49)	(103)
Profit before taxation	5	2,993	75,196
Income tax credit/(expenses)	6	9,858	(17,593)
Profit for the year		12,851	57,603
Attributable to:			
— Equity shareholders of the Company		12,670	57,743
— Non-controlling interests		181	(140)
Profit for the year		12,851	57,603
Earnings per share	9		
Basic (RMB cents)		1.73	9.45
Diluted (RMB cents)		1.73	9.34

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017 (Expressed in Renminbi)

	2017 RMB'000	2016 RMB'000
Profit for the year	12,851	57,603
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China	(7,935)	3,612
Total comprehensive income for the year	4,916	61,215
Attributable to:		
— Equity shareholders of the Company	4,735	61,355
— Non-controlling interests	181	(140)
Total comprehensive income for the year	4,916	61,215

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Statement of Financial Position

At December 31, 2017 (Expressed in Renminbi)

	NOTE	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	10	33,509	34,210
Intangible assets	11	13,995	8,197
Interest in associate	13	556	605
Deferred tax assets	20(b)	7,236	3,546
Other non-current assets	14	11,823	–
		67,119	46,558
Current assets			
Inventories	15	72,366	47,447
Trade and other receivables	16	158,227	116,307
Cash and cash equivalents	17	184,643	144,822
		415,236	308,576
Current liabilities			
Trade and other payables	18	72,556	94,247
Income tax payable	20(a)	6,806	21,401
		79,362	115,648
Net current assets		335,874	192,928
Total assets less current liabilities		402,993	239,486

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Statement of Financial Position *(continued)*

At December 31, 2017 (Expressed in Renminbi)

	NOTE	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred tax liabilities	20(b)	5,412	10,961
Deferred income	21	6,200	7,816
		11,612	18,777
Net assets		391,381	220,709
Capital and reserves			
Share capital	22	71	1
Reserves	22	391,127	220,706
Total equity attributable to equity shareholders of the Company		391,198	220,707
Non-controlling interests		183	2
Total equity		391,381	220,709

Approved and authorized for issue by the Board of Directors on March 28, 2018.

Yue Jingxing
Executive Director

Zhang Youyun
Executive Director

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 22(c)	Share premium RMB'000 Note 22(d)	Capital reserve RMB'000 Note 22(e)	PRC statutory reserves RMB'000 Note 22(f)	Exchange reserve RMB'000 Note 22(g)	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2016	115	112,430	79,566	11,872	11,669	27,125	242,777	(108)	242,669
Changes in equity for 2016:									
Profit/(loss) for the year	–	–	–	–	–	57,743	57,743	(140)	57,603
Other comprehensive income	–	–	–	–	3,612	–	3,612	–	3,612
Total comprehensive income	–	–	–	–	3,612	57,743	61,355	(140)	61,215
Equity-settled share-based payments	–	–	571	–	–	–	571	–	571
Capital injection from non-controlling interests	–	–	–	–	–	–	–	250	250
Shares issued arising from the Reorganization	37	(112,430)	50,965	–	–	61,428	–	–	–
Profit distribution	–	–	–	–	–	(83,996)	(83,996)	–	(83,996)
Appropriation to reserves	–	–	–	4,848	–	(4,848)	–	–	–
Repurchase of shares	(152)	–	–	–	–	(3)	(155)	–	(155)
Issue of new shares	1	154	–	–	–	–	155	–	155
Balance at December 31, 2016	1	154	131,102	16,720	15,281	57,449	220,707	2	220,709

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity *(continued)*

For the year ended December 31, 2017 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 22(c)	Share premium RMB'000 Note 22(d)	Capital reserve RMB'000 Note 22(e)	PRC statutory reserves RMB'000 Note 22(f)	Exchange reserve RMB'000 Note 22(g)	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2017	1	154	131,102	16,720	15,281	57,449	220,707	2	220,709
Changes in equity for 2017:									
Profit for the year	–	–	–	–	–	12,670	12,670	181	12,851
Other comprehensive income	–	–	–	–	(7,935)	–	(7,935)	–	(7,935)
Total comprehensive income	–	–	–	–	(7,935)	12,670	4,735	181	4,916
Equity-settled share-based payments (note 19(d))	–	–	203	–	–	–	203	–	203
Appropriation to reserves	–	–	–	1,061	–	(1,061)	–	–	–
Issue of ordinary shares under share option plan (note 22(c))	1	1,321	(1,306)	–	–	–	16	–	16
Capitalization issue (note 22(c))	51	(51)	–	–	–	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs (note 22(c))	18	165,519	–	–	–	–	165,537	–	165,537
Balance at December 31, 2017	71	166,943	129,999	17,781	7,346	69,058	391,198	183	391,381

The notes on pages 67 to 127 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended December 31, 2017 (Expressed in Renminbi)

	NOTE	2017 RMB'000	2016 RMB'000
Operating activities:			
Cash (used in)/generated from operations	17(b)	(73,389)	25,351
Income tax paid	20(a)	(15,181)	(8,325)
Net cash (used in)/generated from operating activities		(88,570)	17,026
Investing activities:			
Payment for purchase of property, plant and equipment and intangible assets		(18,103)	(17,947)
Expenditure on development project		(7,287)	–
Payment for acquisition deposits	14	(11,823)	–
Proceeds from disposal of property, plant and equipment		22	–
Payment for investment in available-for-sale financial assets		–	(106,500)
Proceeds from maturity of available-for-sale financial assets		–	106,500
Interest received		553	406
Net cash used in investing activities		(36,638)	(17,541)
Financing activities:			
Proceeds from interest-bearing loan		13,000	–
Repayment of interest-bearing loan		(13,000)	–
Payment of deposit for interest-bearing loan		(8,124)	–
Redemption of deposit for interest-bearing loan		8,124	–
Interest paid		(276)	–
Capital injection from non-controlling interest		–	250
Cash received from investors for share subscription		16	79,522
Net proceeds from issuance of shares by initial public offering, net of issuance costs		165,537	–
Dividends paid to equity shareholders		–	(83,996)
Net cash generated from/(used in) financing activities		165,277	(4,224)
Net increase/(decrease) in cash and cash equivalents		40,069	(4,739)
Effect of foreign exchange rate changes		(248)	1,452
Cash and cash equivalents at January 1	17(a)	144,822	148,109
Cash and cash equivalents at December 31	17(a)	184,643	144,822

The notes on pages 67 to 127 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The consolidated financial statements for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in associate.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "**Functional Currency**"). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis except for available-for-sale financial assets (see note 1(f)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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

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

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 17(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 28).

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

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

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

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

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

(e) Associates

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates *(Continued)*

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

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

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

(f) Available-for-sale financial assets

Available-for-sale financial assets are initially stated at fair value plus any directly attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. Interest income from these financial assets is recognized using the effective interest method in profit or loss in accordance with the policy set out in note 1(s)(iv). When these financial assets are derecognized or impaired (note 1(j)(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

(g) Property, plant and equipment

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(u)).Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

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

— Software	3–10 years

Both the period and method of amortization are reviewed annually.

(i) Operating lease charges

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

(j) Impairment of assets

(i) Impairment of available-for-sale financial assets and trade and other receivables

Available-for-sale financial assets and trade and other receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of available-for-sale financial assets and trade and other receivables *(Continued)*

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

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

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

If any such evidence exists, any impairment loss is determined and recognized as follows:

— For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of available-for-sale financial assets and trade and other receivables *(Continued)*

— For trade and other receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The Group assesses whether objective evidence of impairment exists for each individual financial asset. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

— property, plant and equipment;

— intangible assets; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually to determine whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Inventories

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

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

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

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

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Cash and cash equivalents

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

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan obligations

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

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

(iii) Share-based payments

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(iv) Termination benefits

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

(q) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

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

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

  — the same taxable entity; or

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

(ii) Service income

Revenue arising from services is recognized when the relevant service is rendered without further performance obligations.

(iii) Dividend income

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(iv) Interest income

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

(v) Government grants

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

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(u) Borrowing cost

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

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Segment reporting

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(i) Recognition of income taxes and deferred tax assets

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of trade receivables

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, payment terms, customer credit-worthiness, the status of customer's financial condition, and historical write-off experience. If the financial condition of the customers was to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

(ii) Warranty provisions

As explained in note 18(b), the Group makes provisions under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(iii) Net realizable value of inventories

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2017 RMB'000	2016 RMB'000
AMR business		
— PLC Integrated circuits ("**ICs**")	77,309	114,868
— PLC Modules	153,486	214,549
— Other AMR products	32,289	16,199
— AMR maintenance services	32,080	31,057
Sub-total	295,164	376,673
Smart energy management business	22,169	13,537
Total	317,333	390,210

The Group had transactions with one individual customer the aggregate amount of which exceeded 10% of the Group's revenue in 2017 (2016: one). Revenues from this customer in 2017 amounted to approximately RMB51,695,000. Revenue from the other one customer in 2016 amounted to approximately RMB50,284,000. Details of concentrations of credit risk arising from these customers are set out in note 23(a).

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- AMR business: this segment includes design, development and sale of power-line communication products and providing maintenance services in connection with the deployment and upgrading of AMR systems by power grid companies in the PRC.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

- Smart energy management business: this segment includes design, development and sale of energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, etc.

(i) Segment results, assets and liabilities

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended December 31, 2017 and 2016 is set out as below:

	Year ended December 31, 2017		
	AMR business RMB'000	Smart energy management business RMB'000	Total RMB'000
Reportable segment revenue	295,164	22,169	317,333
Reportable segment cost of sales	(159,393)	(12,213)	(171,606)
Reportable segment sales and marketing expenses	(49,032)	(6,139)	(55,171)
Reportable segment profit	86,739	3,817	90,556

	Year ended December 31, 2016		
	AMR business RMB'000	Smart energy management business RMB'000	Total RMB'000
Reportable segment revenue	376,673	13,537	390,210
Reportable segment cost of sales	(186,435)	(8,512)	(194,947)
Reportable segment sales and marketing expenses	(56,822)	(3,634)	(60,456)
Reportable segment profit	133,416	1,391	134,807

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2017 RMB'000	2016 RMB'000
Reportable segment profit	90,556	134,807
Other income	16,314	13,568
General and administrative expenses	(56,350)	(35,311)
Research and development expenses	(47,202)	(37,765)
Finance costs	(276)	–
Share of loss of associate	(49)	(103)
Profit before taxation	2,993	75,196

(iii) Information about geographical area

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets. For the years ended December 31, 2017 and 2016, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were located in the PRC.

4 OTHER INCOME

	2017 RMB'000	2016 RMB'000
Interest income from bank deposits	553	296
Interest income from available-for-sale financial assets	–	110
Government grants		
— Unconditional subsidies (note (a))	11,601	15,341
— Conditional subsidies (note 21)	1,616	3,456
Net exchange gain/(loss)	2,703	(5,115)
Others	(159)	(520)
	16,314	13,568

(a) Government grants

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

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2017 RMB'000	2016 RMB'000
Interest on interest-bearing loan	276	–

(b) Staff costs

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	57,954	51,680
Contributions to defined contribution retirement plans (i)	4,597	4,076
Equity-settled share-based payment expenses	203	571
	62,754	56,327

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

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

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

5 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2017 RMB'000	2016 RMB'000
Cost of inventories (i)	172,934	196,867
Research and development expenses (ii)	47,202	37,765
Depreciation and amortization	7,076	4,907
Operating lease charges	8,245	7,722
Product warranty costs (note 18(b))	2,848	3,592
Impairment losses of trade receivables (note 16(b))	1,702	1,768
Listing expenses	12,916	8,546
Auditors' remuneration	2,052	42

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

	2017 RMB'000	2016 RMB'000
Staff costs	5,356	4,167
Depreciation and amortization	2,109	1,841
Operating lease charges	1,157	953

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

	2017 RMB'000	2016 RMB'000
Staff costs	23,876	22,215
Professional costs	14,548	5,757
Depreciation and amortization	1,725	1,756
Operating lease charges	2,303	2,333
Cost of inventories	1,328	1,920

6 INCOME TAX (CREDIT)/EXPENSES IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017 RMB'000	2016 RMB'000
Current tax:		
Provision for current income tax for the year (note 20(a))	3,083	11,410
Under-provision in prior years (note 20(a))	610	–
Reversal of provision for permanent establishment risk (note 20(a))	(4,312)	–
Deferred tax:		
Origination and reversal of temporary differences (note 20(b))	(9,239)	6,183
	(9,858)	17,593

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	2,993	75,196
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	2,618	18,365
Tax effect of preferential tax rate	(793)	(6,373)
Tax effect of non-deductible expenses	415	237
Additional deduction for qualified research and development costs (iii)	(3,112)	(2,726)
Under-provision in prior years	610	–
Tax effect of unused tax losses not recognized (iv)	477	821
Tax effect of unrecognized tax losses utilized	(212)	–
Effect on deferred tax balance resulting from a change in tax rate	–	3,515
Withholding tax on distributable profits (ii)	(5,549)	3,754
Reversal of provision for permanent establishment tax risk (v)	(4,312)	–
Actual income tax (credit)/expense	(9,858)	17,593

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

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

(i) Pursuant to the rules and regulations of the Cayman Islands and Seychelles, the Group is not subject to any income tax in the Cayman Islands and Seychelles.

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

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25%. Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), a PRC subsidiary of the Group, is entitled to the preferential tax rate of 15% from years 2016 to 2018, being accredited as a High and New Technology Enterprise according to the PRC Corporate Income Tax Law and its relevant regulations.

(ii) As for the retained profits of PRC subsidiaries of which dividends will be payable to investor outside PRC, a preferential withholding tax rate of 5% is applied as at December 31, 2017 instead of 10% as in previous years, since Risecomm (HK) Holdings Co. Limited ("**Risecomm HK**"), the parent company of the Group's PRC subsidiaries, became entitled to the preferential withholding tax rate of 5%, having been certified as the tax resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" as at December 31, 2017. As a result, income tax credit of RMB5,549,000 was recorded for the year ended December 31, 2017.

(iii) Under the PRC Corporate Income Tax Law and its relevant regulations, 50% additional tax deduction is allowed for qualified research and development costs.

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

(v) The corporate income tax provision related to PRC permanent establishment tax risk arising in and prior to year 2012 is reversed as at December 31, 2017 as the related subsidiary of the Group has ceased to create a permanent establishment risk in the PRC and the relevant PRC permanent establishment tax risk has become remote. As a result, tax provision of RMB4,312,000 was released in the year ended December 31, 2017.

7 DIRECTORS' REMUNERATION

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

Year ended December 31, 2017

	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments (note) RMB'000	Total RMB'000
Executive directors						
Mr. Yue Jingxing	59	1,440	26	15	19	1,559
Mr. Wang Shiguang	59	1,062	210	28	–	1,359
Mr. Zhang Youyun	59	522	51	34	40	706
Non-executive Directors						
Mr. Ng Benjamin Jin-ping	–	–	–	–	–	–
Mr. Lau Wai Leung (appointed on November 22, 2017)	–	–	–	–	–	–
Independent non-executive directors						
Mr. Ong King Keung (appointed on May 16, 2017)	118	–	–	–	–	118
Mr. Chen Yong (appointed on May 16, 2017)	118	–	–	–	–	118
Mr. Pan Song (appointed on May 16, 2017)	118	–	–	–	–	118
	531	3,024	287	77	59	3,978

7 DIRECTORS' REMUNERATION *(Continued)*

Year ended December 31, 2016

	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments (note) RMB'000	Total RMB'000
Executive directors						
Mr. Yue Jingxing (appointed on February 22, 2016)	–	1,182	363	25	53	1,623
Mr. Wang Shiguang (appointed on February 22, 2016)	–	895	210	40	–	1,145
Mr. Zhang Youyun (appointed on February 22, 2016)	–	480	98	32	112	722
Non-executive director						
Mr. Ng Benjamin Jin-ping (appointed on February 22, 2016)	–	–	–	–	–	–
	–	2,557	671	97	165	3,490

Note: These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 19.

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

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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) are directors whose emoluments are disclosed in note 7.The aggregate of the emoluments in respect of the other three (2016: three) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	3,321	3,319
Discretionary bonuses	858	806
Retirement scheme contributions	60	81
Equity-settled share-based payment expenses	8	22
	4,247	4,228

The emoluments of the three (2016: three) individuals with the highest emoluments are within the following bands:

	2017	2016
HKD1,000,001–HKD1,500,000	1	1
HKD1,500,001–HKD2,000,000	1	2
HKD2,000,001–HKD2,500,000	1	–

(Expressed in Renminbi unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB12,670,000 (2016: RMB57,743,000) and the weighted average of 731,426,497 ordinary shares (2016: 611,313,443 shares after adjusting capitalization issue) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2017	2016
Shares in issue on January 1,	18,128,214	18,128,214
Effect of equity-settled share options exercised on January 26, 2017	200,000	–
Effect of capitalization issue on June 9, 2017 (note)	581,671,786	575,324,503
Effect of vested equity-settled share options	13,289,511	17,860,726
Effect of shares issued by initial public offering on June 9, 2017	112,876,712	–
Effect of shares issued under exercise of over-allotment option on June 23, 2017	5,260,274	–
Weighted average number of ordinary shares	731,426,497	611,313,443

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of RMB12,670,000 (2016: RMB57,743,000) and the weighted average of 734,312,097 shares for 2017 (2016: 618,000,416 shares after adjusting capitalization issue), calculated as follows:

(i) Weighted average number of ordinary shares

	2017	2016
Weighted average number of ordinary shares at December 31 (basic)	731,426,497	611,313,443
Effect of unvested equity-settled share options	2,885,600	6,686,973
Weighted average number of ordinary shares at December 31 (diluted)	734,312,097	618,000,416

(Expressed in Renminbi unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction In process RMB'000	Total RMB'000
Cost:							
At January 1, 2016	2,096	12,457	3,269	910	3,337	–	22,069
Additions	–	5,016	2,052	238	644	19,560	27,510
Disposals	–	–	(25)	–	–	–	(25)
At December 31, 2016 and January 1, 2017	2,096	17,473	5,296	1,148	3,981	19,560	49,554
Additions	32	2,317	1,000	68	273	488	4,178
Transfer from CIP	18,627	1,155	266	–	–	(20,048)	–
Disposals	–	(11)	(48)	(2)	–	–	(61)
At December 31, 2017	20,755	20,934	6,514	1,214	4,254	–	53,671
Accumulated depreciation:							
At January 1, 2016	(182)	(8,889)	(1,148)	(231)	(1,632)	–	(12,082)
Charge for the year	(100)	(1,308)	(749)	(126)	(1,004)	–	(3,287)
Written back on disposals	–	–	25	–	–	–	25
At December 31, 2016 and January 1, 2017	(282)	(10,197)	(1,872)	(357)	(2,636)	–	(15,344)
Charge for the year	(836)	(2,161)	(1,150)	(151)	(559)	–	(4,857)
Written back on disposals	–	3	35	1	–	–	39
At December 31, 2017	(1,118)	(12,355)	(2,987)	(507)	(3,195)	–	(20,162)
Net book value:							
At December 31, 2017	19,637	8,579	3,527	707	1,059	–	33,509
At December 31, 2016	1,814	7,276	3,424	791	1,345	19,560	34,210

(Expressed in Renminbi unless otherwise indicated)

11 INTANGIBLE ASSETS

	Software RMB'000	Capitalized development costs RMB'000	Total RMB'000
Cost:			
At January 1, 2016	6,127	–	6,127
Additions	3,896	–	3,896
At December 31, 2016 and January 1, 2017	10,023	–	10,023
Additions	730	7,287	8,017
At December 31, 2017	10,753	7,287	18,040
Accumulated depreciation:			
At January 1, 2016	(206)	–	(206)
Charge for the year	(1,620)	–	(1,620)
At December 31, 2016 and January 1, 2017	(1,826)	–	(1,826)
Charge for the year	(2,219)	–	(2,219)
At December 31, 2017	(4,045)	–	(4,045)
Net book value:			
At December 31, 2017	6,708	7,287	13,995
At December 31, 2016	8,197	–	8,197

(Expressed in Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARIES

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

Name of companies	Place of incorporation and business	Registered and paid up capital	Proportion of ownership interest			Principal activities
			Group' effective interest	Held by the Company	Held by a subsidiary	
Risecomm Co. Ltd.	The Cayman Islands	18,128,214 shares of USD0.001 each	100%	100%	–	Dormant
Harvest Year Global Limited (康年環球有限公司)	Seychelles	1 share of USD1 each	100%	100%	–	Investment holding
Prime Key Holdings Limited (卓建控股有限公司)	Seychelles	1 share of USD1 each	100%	100%	–	Investment holding
Risecomm (HK) Technology Co. Limited (瑞斯康(香港)技術有限公司)	Hong Kong	1 share of HKD1 each	100%	–	100%	Trading and research and development
Risecomm (HK) Holding Co. Limited (瑞斯康(香港)控股有限公司)	Hong Kong	1 share of HKD1 each	100%	–	100%	Investment holding
Risecomm Microelectronics (Shenzhen) Co., Ltd.* (瑞斯康微電子(深圳)有限公司)	The PRC	USD17,500,000	100%	–	100%	Manufacturing of PLC products
Beijing Risecomm Communication Technology Company Limited* (北京瑞斯康通信技術有限公司)	The PRC	RMB3,000,000	100%	–	100%	Sales and marketing
Wuxi Risecomm Communication Technology Company Limited* (無錫瑞斯康通信技術有限公司)	The PRC	RMB3,100,000	100%	–	100%	Research and development
Shenzhen Risecomm Software Technology Company Limited* (深圳市瑞斯康軟件技術有限公司)	The PRC	RMB2,000,000	100%	–	100%	Research and development
Changsha Risecomm Communication Technology Company Limited* (長沙瑞斯康通信技術有限公司)	The PRC	RMB1,000,000	75%	–	75%	Research and development

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

13 INTEREST IN ASSOCIATE

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

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

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

14 OTHER NON-CURRENT ASSETS

The amount represents a deposit of HK$14,000,000 for acquisition of a target company (note 27). The acquisition has not been completed as at the date of this report.

15 INVENTORIES

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

	2017 RMB'000	2016 RMB'000
Raw materials	26,280	14,258
Work in progress	25,543	8,686
Finished goods	24,755	25,200
	76,578	48,144
Provision for diminution in value of inventories	(4,212)	(697)
	72,366	47,447

15 INVENTORIES *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	168,091	195,014
Write down/(reversal) of inventories	3,515	(67)
Cost of inventories directly recognized as research and development expenses	1,328	1,920
	172,934	196,867

16 TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	141,337	104,336
Less: allowance for doubtful debts (note (b))	(5,144)	(3,442)
	136,193	100,894
Bills receivable	5,615	2,500
Total trade receivables	141,808	103,394
Deposits and prepayments	10,263	10,014
Income tax recoverable (note 20(a))	1,205	–
Other receivables	4,951	2,899
Trade and other receivables, net	158,227	116,307

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

16 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

	2017 RMB'000	2016 RMB'000
Within 6 months	101,662	77,040
After 6 months but within 1 year	16,652	12,845
After 1 year	23,023	14,451
Trade receivables	141,337	104,336
Less: Provision for doubtful debts	(5,144)	(3,442)
Trade receivables, net	136,193	100,894

Further details on the Group's credit policy are set out in note 23(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 1(j)(i)).

The movement in the provision for impairment during the year is as follows:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	3,442	1,674
Impairment losses recognized	1,702	1,768
Balance at end of the year	5,144	3,442

As at December 31, 2017, the amount of Group's trade receivables individually determined to be impaired was RMB521,000 (2016: RMB521,000).

(Expressed in Renminbi unless otherwise indicated)

16 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade receivables that are not impaired:

The ageing analysis of trade account receivables that are not individually considered to be impaired are as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	82,485	43,445
Less than 6 months past due	29,721	42,752
6 to 12 months past due	12,977	11,715
Over 12 months past due	11,010	2,982
Total amount past due but not impaired	53,708	57,449
	136,193	100,894

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not individually impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Bills receivables

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

16 TRADE AND OTHER RECEIVABLES *(Continued)*

(d) Bills receivables *(Continued)*

During the years ended December 31, 2017 and 2016, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognized these bills receivable and the payables to suppliers in their entirety. These derecognized bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills and had discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at December 31, 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB3,450,000 (2016: RMB2,016,000).

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash at banks and on hand	184,643	144,822

17 CASH AND CASH EQUIVALENTS *(Continued)*

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

	NOTE	2017 RMB'000	2016 RMB'000
Profit before taxation		2,993	75,196
Adjustments for:			
Depreciation and amortization	5(c)	7,076	4,907
Finance costs	5(a)	276	–
Impairment losses of trade receivables	5(c)	1,702	1,768
Write down/(reversal) of inventories	15(b)	3,515	(67)
Interest income	4	(553)	(406)
Equity-settled share-based payment expenses	5(b)	203	571
Share of loss of associate		49	103
Changes in working capital:			
(Increase)/decrease in inventories		(28,434)	26,303
Increase in trade and other receivables		(42,417)	(37,335)
Decrease in trade and other payables		(16,183)	(42,753)
Decrease in deferred income		(1,616)	(2,936)
Cash (used in)/generated from operations		(73,389)	25,351

(c) Reconciliation of liabilities arising from financial activities:

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

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

(Expressed in Renminbi unless otherwise indicated)

18 TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables (note (a))	44,708	49,806
Receipts in advance	5,226	6,457
Product warranty provision (note (b))	4,644	5,295
Other payables and accruals	17,978	32,689
Trade and other payables	72,556	94,247

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

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

	2017 RMB'000	2016 RMB'000
Within 3 months	42,949	40,413
After 3 months but within 6 months	1,344	3,954
After 6 months but within 1 year	60	5,190
Over 1 year but within 2 years	355	249
	44,708	49,806

(b) Product warranty provision

	2017 RMB'000	2016 RMB'000
At January 1, 2017	5,295	4,570
Additional provisions made	2,848	3,592
Provisions utilised	(3,499)	(2,867)
At December 31, 2017	4,644	5,295

(Expressed in Renminbi unless otherwise indicated)

19 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

(a) The terms and conditions of the grants are as follows:

	Number of instrument	Vesting conditions	Contractual life of options
Options granted to employees			
— On February 1, 2007	731,334	25% of total shares vested on year anniversary of the grant date, the rest vested in 36 substantially equal monthly instalments from year anniversary of the grant date	10 years
— On April 21, 2011	200,000		10 years
— On March 26, 2014	503,858		10 years
Options granted to non-executive directors			
— On February 1, 2007	200,000	Vested immediately on grant date	10 years
— On March 26, 2014	26,799		10 years
Options granted to SAIF			
— On April 21, 2011	168,666	Vested immediately on grant date	10 years
— On March 26, 2014	136,000		10 years
Total share options granted	1,966,657		

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

	At December 31, 2017		At December 31, 2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	USD0.01	695,180	USD0.01	771,680
Exercised during the year (note 22(c)(iv))	USD0.01	(200,000)	–	–
Additions upon capitalization issue	–	15,715,237	–	–
Exercised during the year (note 22(c)(iv))	USD0.0003	(877,303)		
Cancelled during the year	–	–	USD0.01	(76,500)
Forfeited during the year	USD0.0003	(2,662,585)	–	–
Outstanding at the end of the year	USD0.0003	12,670,529	USD0.01	695,180
Exercisable at the end of the year	USD0.0003	11,983,183	USD0.01	548,221

(Expressed in Renminbi unless otherwise indicated)

19 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	Share options issued in		
	February 2007	April 2011	March 2014
Fair value of share options and assumptions			
Fair value at measurement date	USD746,428	USD420,228	USD809,779
Share price	USD0.80	USD1.14	USD1.23
Exercise price (note)	USD0.01	USD0.01	USD0.01
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial option pricing model)	51.90%	50.15%	46.15%
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	10 years	10 years	10 years
Suboptimal exercise factor	2.86 to 3.3422	2.86 to 3.3422	2.86 to 3.3422
Expected dividends	0%	0%	0%
Risk-free interest rate (based on Exchange Fund Notes)	4.14%	2.72%	2.29%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Note: The exercise price of the share options was changed to USD0.0003 per share upon a capitalisation issue prior to the Company's Initial Public Offering in June 2017.

19 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Sales and marketing expenses	56	157
General and administrative expenses	67	190
Research and development expenses	80	224
	203	571
Represented by:		
Staff costs (note 5(b))	203	571

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2017 RMB'000	2016 RMB'000
Balance at January 1	21,401	18,316
Provision for current income tax for the year (note 6(a))	3,083	11,410
Under-provision in prior years (note 6(a))	610	–
Reversal of provision for permanent establishment (note 6(a))	(4,312)	–
Payment during the year	(15,181)	(8,325)
Balance at December 31	5,601	21,401
Reconciliation to the consolidated statement of financial position:		
Income tax payable	6,806	21,401
Income tax recoverable (note 16)	(1,205)	–
Balance at December 31	5,601	21,401

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognized:

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

	Tax losses RMB'000	Impairment losses on receivables and inventories RMB'000	Unrealized profit due to intra-group transactions RMB'000	Accrued expenses and other payables RMB'000	Deferred income RMB'000	Intangible assets RMB'000	Withholding tax on distributable profits RMB'000	Total RMB'000
Deferred tax arising from:								
At January 1, 2016	–	609	4,257	2,188	2,688	(1,156)	(9,818)	(1,232)
Credited/(charged) to profit or loss (note 6(a))	–	46	(2,413)	(1,334)	(1,546)	207	(3,754)	(8,794)
Realized upon distribution of profits (note 6(a))	–	–	–	–	–	–	2,611	2,611
At December 31, 2016 and January 1,2017	–	655	1,844	854	1,142	(949)	(10,961)	(7,415)
Credited/(charged) to profit or loss (note 6(a))	2,264	907	(463)	973	(242)	251	5,549	9,239
At December 31, 2017	2,264	1,562	1,381	1,827	900	(698)	(5,412)	1,824

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets recognized in the consolidated statement of financial position	7,236	3,546
Deferred tax liabilities recognized in the consolidated statement of financial position	(5,412)	(10,961)
	1,824	(7,415)

(c) Deferred tax liabilities not recognized

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

21 DEFERRED INCOME

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

22 CAPITAL AND RESERVES

(a) Movements in components of equity:

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

Company

	NOTE	Share capital RMB $'000	Share premium RMB $'000	Capital reserve RMB $'000	Exchange reserve RMB $'000	Accumulated losses RMB $'000	Total RMB $'000
Balance at January 1, 2016		–	–	–	–	–	–
Changes in equity for 2016:							
Total comprehensive income for the year		–	–	–	(24)	(6,946)	(6,970)
Equity-settled share-based payments		–	–	190	–	–	190
Shares issued arising from the reorganization		155	–	158,436	–	–	158,591
Repurchase of shares		(155)	–	–	–	–	(155)
Issue of new shares		1	154	–	–	–	155
Balance at December 31, 2016 and January 1, 2017		1	154	158,626	(24)	(6,946)	151,811
Changes in equity for 2017:							
Total comprehensive income for the year		–	–	–	1,517	(12,155)	(10,638)
Equity-settled share-based payments		–	–	203	–	–	203
Issue of shares under share option plan		1	1,321	(1,306)	–	–	16
Capitalization issue	22(c)	51	(51)	–	–	–	–
Issue of ordinary shares by initial public offering, net of issuance costs	22(c)	18	165,519	–	–	–	165,537
Balance at December 31, 2017	22(c)	71	166,943	157,523	1,493	(19,101)	306,929

22 CAPITAL AND RESERVES *(Continued)*

(b) Dividends

The Board did not recommend the payment of a final dividend for year ended December 31, 2017.

On March 31, 2016, the Group approved cash dividends of USD13,000,000 (equivalent to RMB83,996,000) payable to its then equity shareholders. The above dividends were fully paid in May 2016.

(c) Share capital

(i) Authorized and issued shares capital

	Par value HK$	No. of shares '000	HK$ '000
Authorized shares at December 31, 2017:	0.0001	10,000,000	1,000
Ordinary shares, issued and fully paid			
At January 1, 2016	–	–	–
Issue of new shares on February 1, 2016	0.01	18,128	181
Repurchase on August 18, 2016	0.01	(18,128)	(181)
Issue of new shares on August 18, 2016	0.0001	18,128	2
At December 31, 2016	0.0001	18,128	2
RMB equivalent ('000)			1
At January 1, 2017	0.0001	18,128	2
Issue of shares under share option plan (note (iv))	0.0001	1,077	–
Capitalization issue (note (ii))	0.0001	581,672	58
Initial public offering (note (iii))	0.0001	210,000	21
At December 31, 2017	0.0001	810,877	81
RMB equivalent ('000)			71

22 CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(ii) Capitalization issue

Pursuant to the written resolution dated May 16, 2017, the Company allotted and issued 581,672,000 shares of HK$0.0001 each to the then existing shareholders. This resolution was conditional upon the share premium account being credited as a result of the Company's initial public offering and pursuant to this resolution, a sum of HK$58,000 (equivalent to RMB51,000) standing to the credit of the share premium account as at June 9, 2017 was subsequently applied in paying up this capitalization issue in full.

(iii) Issue of ordinary shares by initial public offering

On June 9, 2017, the Company issued 200,000,000 ordinary shares with a par value of HK$0.0001, at a price of HK$1.00 per share by way of public offering to Hong Kong and overseas investors. On June 23, 2017, the over-allotment option granted to underwriters was exercised and the Company issued 10,000,000 shares with a par value of HK$0.0001, at a price of HK$1.00 per share. Net proceeds from these issues amounted to RMB165,537,000 (after offsetting expenses directly attributable to the issue of shares of RMB17,557,000), out of which RMB18,000 and RMB165,519,000 were recorded in share capital and share premium accounts, respectively.

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

In January 2017, Mr. Ng Benjamin Jin-ping, a director of the Company, exercised his options to subscribe for 200,000 shares at the exercise price of US$0.01 per share.

In December 2017, Ms. Lau Chung Ki Lynda, a director of Risecomm WFOE, exercised her options to subscribe for 877,303 shares of the Company at the exercise of US$0.0003 per share.

(d) Share premium

Share premium as at December 31, 2017 represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering (after deduction of share premium paying up to the Capitalization Issue in note 22(c)(ii)) and exercise of over-allotment option in June 2017 and the exercise of equity-settled share options. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

22 CAPITAL AND RESERVES *(Continued)*

(e) Capital reserve

Capital reserve comprised the followings:

— the fair value of unexercised share options (see note 19(c));

— the difference between fair value of the preference shares and the warrant and the issued amount, upon the waiver of the terms of convertible redeemable preference shares and the warrant in March 2014, and capitalization of the outstanding cumulative dividends payable due to preference shareholders upon waiver in March 2014, and;

— Upon completion of a group reorganization in February 2016, the share premium of Risecomm Co. Ltd., which was the-then holding company of the Group, was deducted from the share premium presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve and retained earnings.

(f) PRC statutory reserves

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

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

(g) Exchange reserve

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

(h) Capital management

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

The Group did not have any bank borrowings as at December 31, 2017 (2016: nil). The Group had cash and cash equivalent of RMB184,643,000 as at December 31, 2017 (2016: RMB144,822,000).

22 CAPITAL AND RESERVES *(Continued)*

(h) Capital management *(Continued)*

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

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

In respect of trade and other receivables, as part of the Group's ongoing credit control procedures, management monitors the creditworthiness of customers to whom it grants credit in the normal course of business.

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

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

(a) Credit risk *(Continued)*

With respect to the collection of trade receivables, the Group's sales personnel are responsible for follow-up of overdue balances on a regular basis. The Group management reviews overdue balances to make appropriate assessment and determine whether or not provision for impairment of trade receivables should be made on a case-by-case basis. The management team works closely with sales personnel to conduct regular reviews of repayment status of customers with overdue trade receivable balances. Management will from time to time review, and if appropriate, revise and update the Group's credit policy and internal control procedures for trade receivables collection.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 18.7% (2016: 13.6%) and 21.3% (2016: 42.1%) of the total trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance (see note 15), and endorsed bills with full recourse which were derecognized by the Group.

The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

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

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

(Expressed in Renminbi unless otherwise indicated)

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

(b) Liquidity risk *(Continued)*

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

	As at December 31, 2016			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables	94,247	–	94,247	94,247

(c) Currency risk

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

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

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

(c) Currency risk *(Continued)*

	Exposure to USD (expressed in RMB)	
	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	38,681	138
Trade and other payables	(100,936)	(76,675)
	(62,255)	(76,537)

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

	2017		2016	
	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings RMB'000	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings RMB'000
USD	5%	(2,646)	5%	(3,253)
	-5%	2,646	-5%	3,253

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

(Expressed in Renminbi unless otherwise indicated)

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

(d) Fair value measurement

All financial assets and liabilities carried at amounts are not materially different from their fair values as at December 31, 2017 and 2016 due to short-term maturity of these instruments.

24 COMMITMENTS

(a) Capital commitments outstanding at December 31, 2017 not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Contracted for	172	2,427
Authorized but not contracted for	–	1,558
Total	172	3,985

(b) At December 31, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	6,095	4,151
After 1 year but within 5 years	2,488	1,514
	8,583	5,665

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

25 RELATED PARTY TRANSACTIONS

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

During the year, the directors are of the view that the following companies and individuals are related parties of the Group:

Name of party	Relationship
SB Asia Investment Fund II L.P.	Shareholder
Chen Junling (陳俊玲)	Shareholder and key management personnel
Wang Shiguang (王世光)	Spouse of Chen Junling, Director of the Company and key management personnel
Yue Jingxing (岳京興)	Shareholder, Director of the Company and key management personnel
Zhang Youyun (張友運)	Shareholder, Director of the Company and key management personnel
Gu Jian (顧建)	Shareholder and key management personnel
Zhang Baojun (張保軍)	Shareholder and key management personnel
Han Yuan (韓源)	Shareholder and key management personnel
Liu Ming (劉明)	Shareholder and key management personnel
Ng Benjamin Jin-ping (吳俊平)	Shareholder and non-executive Director of the Company
Risecomm (Beijing) Technology Company Limited	Associate of the Group

25 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Key management personnel remuneration

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

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	10,046	9,472
Post-employee benefits	253	308
Equity-settled share-based payments	115	321
	10,414	10,101

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

(b) Transactions with related parties

	2017 RMB'000	2016 RMB'000
Recurring transactions:		
Office premises rental expenses paid to		
Wang Shiguang	724	724

As at December 31, 2017, the Group had balances with related parties of nil (2016: nil.)

(Expressed in Renminbi unless otherwise indicated)

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2017 RMB'000	2016 RMB'000
Non-current assets		
Investments in subsidiaries	158,984	158,781
Other non-current assets	11,823	–
	170,807	158,781
Current assets		
Deposits and prepayments	438	–
Amounts due from subsidiaries	89,056	–
Cash and cash equivalents	46,628	124
	136,122	124
Current liabilities		
Amount due to a subsidiary	–	7,094
	–	7,094
Net current assets/(liabilities)	136,122	(6,970)
Net assets	306,929	151,811
Equity		
Share capital	71	1
Reserves	306,858	151,810
Total equity	306,929	151,811

27 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On December 28, 2017, the Company entered into a conditional sale and purchase agreement (the "**SPA**") with an independent vendor (the "**Vendor**"), pursuant to which, the Company conditionally agreed to acquire the entire equity interest of Green Harmony Limited and its subsidiaries (collectively referred as to the "**Target Group**") (the "**Acquisition**") for a maximum consideration of HK$500 million (the "**Consideration**"), subject to the adjustment mechanism as stipulated in the SPA. On February 12, 2018, the Company and the Vendor further entered into a supplemental agreement (the "**Supplemental Agreement**"), pursuant to which, the payment structure of the Consideration was amended and certain terms in the SPA were clarified and elaborated. Details of the Acquisition have been disclosed by the Company in its announcements dated December 28, 2017, January 3, 2018, January 10, 2018, February 12, 2018 and March 23, 2018, respectively. As at the date of this report, this acquisition has not been completed.

On February 13, 2018, the Company entered into a subscription agreement to issue convertible bonds in the principal amount of HK$100,000,000 at coupon interest rate of 6% per annum to an existing institutional shareholder. The convertible bonds will mature 24 months from the Issue Date and the maturity date may be extended to 36 months from the Issue Date at the request of the Company. At any time after the Issue Date prior to maturity, the holder of the convertible bonds shall have the right to convert in whole or in part the outstanding principal amount of the convertible bonds, into such number of fully paid shares of the Company with an initial conversion price of HK$3.33 per share which is subject to anti-dilutive adjustments arising from such events as defined in the agreement. Details of the subscription agreement have been disclosed by the Company in its announcements dated February 13, 2018 and March 23, 2018, respectively. As at the date of this report, the convertible bonds have not been issued.

On March 15, 2018, the Company entered into a conditional share purchase agreement with an independent vendor, pursuant to which, Harvest Year Global Limited, a direct wholly owned subsidiary of the Company, conditionally agreed to acquire the entire equity interest of North Mountain Information Technology Company Limited for a maximum consideration of RMB81 million (subject to the adjustment and deduction) as stipulated in this conditional share purchase agreement. Details of this acquisition have been disclosed by the Company in its announcement dated March 15, 2018. A deposit of HK$14 million has been paid to the vendor as at December 31, 2017 (see note 9), As at the date of this report, this acquisition has not been completed.

(Expressed in Renminbi unless otherwise indicated)

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	January 1, 2018
HKFRS 15, *Revenue from contracts with customers*	January 1, 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	January 1, 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	January 1, 2018
HKFRS 16, *Leases*	January 1, 2019
HK(IFRIC) Interpretation 23, *Uncertainty over income tax treatments*	January 1, 2019
Amendments to HKAS 28, *Long-term interests in associates and joint ventures*	January 1, 2019

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

While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending June 30, 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognize any transition adjustments against the opening balance of equity at January 1, 2018.

Expected impact of the new requirements on the Group's financial statements is as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortized cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The Group currently does not have any financial assets measured at FVTPL or FVTOCI.

Based on the assessment so far, the Group expects that its financial assets currently measured at amortized cost will continue with their respective classification and measurement upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognized in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. Based on a preliminary assessment, the application of the new impairment model may not have a significant impact on the Group's financial statements.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

The core principle of HKFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position. The Group plans to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2018.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

HKFRS 16, Leases

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

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

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 24(b), at December 31, 2017 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB8,583,000 among which RMB2,488,000 is payable after 1 year. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 *(Continued)*

HKFRS 16, Leases *(Continued)*

HKFRS 16 is effective for annual periods beginning on or after January 1, 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognizing a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRS 16, given the Group has not completed its assessment of their full impact on the Group financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

Four-Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements.

FINANCIAL HIGHLIGHTS

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Revenue	232,628	340,724	390,210	317,333
Gross profit	114,822	175,753	195,263	145,727
Net profit	40,555	55,192	57,603	12,851
Profit attributable to owners of the Company	40,555	55,300	57,743	12,670
Total assets	308,373	407,256	355,134	482,355
Total liabilities	127,226	164,587	134,425	90,974
	181,147	242,669	220,709	391,381
Equity attributable to:				
— Owners of the Company	181,147	242,777	220,707	391,198
— Non-controlling interests	–	(108)	2	183
	181,147	242,669	220,709	391,381
Gross profit margin[1]	49.4%	51.6%	50.0%	45.9%
Net profit margin[2]	17.4%	16.2%	14.8%	4.0%
Current ratio[3]	2.58	2.65	2.67	5.23
Quick ratio[4]	2.34	2.14	2.26	4.32
Gearing ratio[5]	0.005%	N/A	N/A	N/A

1. Gross profit margin is calculated by dividing gross profit by revenue.
2. Net profit margin is calculated by dividing net profit by revenue.
3. Current ratio is calculated by dividing total current assets by total current liabilities.
4. Quick ratio is calculated by dividing total current assets less inventories by total current liabilities.
5. Gearing ratio is calculated by dividing total loans and borrowings by total equity.