



RISECOMM
瑞斯康

Risecomm Group Holdings Limited
瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1679

ANNUAL
REPORT

2022

RISECOMM GROUP PRODUCT ASSEMBLY HUBS



CONTENTS

2	Corporate Information
4	Chairman's Statement
5	Management Discussion and Analysis
14	Biographical Details of Directors and Senior Management
19	Directors' Report
38	Corporate Governance Report
50	Environmental, Social and Governance Report
76	Independent Auditor's Report
78	Consolidated Statement of Profit or Loss and Other Comprehensive Income
80	Consolidated Statement of Financial Position
82	Consolidated Statement of Changes in Equity
83	Consolidated Statement of Cash Flows
85	Notes to the Consolidated Financial Statements
166	Five-year Financial Summary

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yue Jingxing (*Chairman*)
Mr. Lau Wai Leung, Alfred
Mr. Jiang Feng

NON-EXECUTIVE DIRECTORS

Mr. Yu Lu
Mr. Ding Zhigang
(*appointed on 13 January 2022*)
Mr. Sun Peng
(*appointed on 22 April 2022 and resigned on 17 January 2023*)
Mr. Cheung Fan
(*resigned on 22 April 2022*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Lau Wai Leung, Alfred

AUTHORIZED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Yue Jingxing
Mr. Lau Wai Leung, Alfred

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Ms. Lo Wan Man (*Chairman*)
Mr. Ong King Keung
Mr. Lau Wai Leung, Alfred
(*appointed on 22 April 2022*)
Mr. Cheung Fan
(*resigned on 22 April 2022*)

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

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

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

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

AUDITOR

RSM Hong Kong
Certified Public Accountants
29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

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

COMPANY WEBSITE

www.risecomm.com.cn

STOCK CODE

1679

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

41/F, Block A, Building 8
Shenzhen International Innovation Valley
Xili Street, Nanshan District
Shenzhen
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4/F., Yue Thai Commercial Building
128 Connaught Road Central
Sheung Wan, 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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

CHAIRMAN'S STATEMENT

TO THE SHAREHOLDERS

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Risecomm Group Holdings Limited (the "**Company**" together with its subsidiaries, the "**Group**"), I hereby present the annual report of the Company for the year ended 31 December 2022 ("**year under review**").

During the year under review, the international political and economic environment became more complicated than that of the previous year. China adopted a series of highly restrictive novel coronavirus (COVID-19) pandemic (the "**Pandemic**") control measures in response to the spread of the Pandemic in the country. Energy crisis and production price fluctuations were triggered on a global scale. China's domestic consumption and demand continued to be sluggish. The combination of various unexpected factors had brought severe challenges to the Group's business during the year.

The power line communication ("**PLC**") products of the Group are mainly used in the Electric Energy Data Acquisition System of the State Smart Grid, the system is an important support for power big data. During the year under review, the PRC government continues to promote the wider application of broadband technology, smart city construction, and energy conservation and emission reduction in China. Despite the impact of various unfavorable factors, the market demand of the PLC industry has maintained a stable growth. For years, the Group has been strategically planning its resources in the research and development of products in these areas, including the investment and improvement in the areas of broadband technology, streetlight controls, building energy management and photovoltaic power management, with a view to seizing the tremendous market opportunities.

Furthermore, the smart manufacturing & industrial automation ("**SMIA**") business segment of the Group contributed part of the non-automated meter reading ("**AMR**") revenue to the inherent risks arising from the reliance on the China Grid ecosystem, thereby achieving a more balanced revenue composition. The Group is confident that its operations in oil and petroleum industry can foster a steady growth in its revenue stream and further diversify its customer base with persistent marketing efforts.

However, facing further hamper and uncertainties on Chinese economy caused by the Pandemic, and the escalating geopolitical tension including the economic conflict between U.S. and China, the Group will continue to maintain a lean-cost strategy to reduce operating expenses in order to cope with future risks and pressure. In addition, the Group is persistently enhancing its corporate governance in all aspects of the Group's operations by continuously leveraging its competitive advantages in a bid to preserve 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 and tremendous contribution 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.

Yue Jingxing

Chairman and Executive Director

Hong Kong, 29 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Under the second round of transformation of the Electric Energy Data Acquisition Systems by the State Grid Corporation of China (“**State Grid**”), the construction goal of “full coverage, collection, and tariff control” is promoting the further development and upgrading of power line communication (“**PLC**”) technology. Looking back on the transformation history of the PLC industry, China’s PLC industry has completed the transition from narrowband single-mode technology to narrowband dual-mode technology, and has then turned to broadband single-mode technology in recent years. Now, State Grid is up to the setting of new standards and adoption of the next-generation dual-mode technology. The transition from broadband single-mode technology to broadband dual-mode technology will be initiated by State Grid shortly. Given the implementation of the dual-carbon policy, the dual control of energy consumption and the marketization of electricity price, it is expected that the focus of State Grid’s procurement and bidding in the coming year will be on broadband dual-mode technology.

In 2022, State Grid conducted three rounds of centralized bidding for energy meters and Electric Energy Data Acquisition Systems, representing one extra round of bidding conducted compared to 2021. The number of tenders for Electric Energy Data Acquisition Systems was about 69.24 million, representing a year-on-year increase of approximately 3.7% compared with 2021.

In the context of the dual-carbon policy, new energy sources will be connected to the grid on a mass scale in the future, distributed power sources will be integrated to the grid, and the number of charging piles and energy storage demand will increase rapidly. In order to cope with such diversified demands, State Grid is accelerating the promulgation of new technical standards and the upgrade of smart meters. The overall market has great potential. However, US sanctions have triggered mismatches in domestic chip supply and delivery delays; the PLC market is highly competitive; and State Grid’s accelerated replacement of industry standards and other factors have brought various uncertainties to the market in 2022.

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

In the face of the current global manufacturing industry’s transformation towards digitalization, networking and intelligence, there has been a continuous increase in policy support for the intelligent manufacturing industry by the PRC government. The “14th Five-Year Plan for Development of Smart Manufacturing” (“**十四五**” 智慧製造發展規劃) puts forward a number of development targets for 2025, including achieving fundamental digitisation and network transformation of 70% of large-scale manufacturing enterprises, the establishment of more than 500 smart manufacturing demonstration factories, and the creation of more than 200 national industry standards. By 2035, the plan envisages the “comprehensive and general digitisation and network transformation of large-scale manufacturing enterprises” as well as the “fundamental smart conversion of key industry backbone enterprises.” In the future, rapid industrial development will promote the continuous expansion of the market scale of the intelligent manufacturing industry, bringing abundant opportunities to the Group.

BUSINESS REVIEW

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

During the year under review, the Group recorded revenue of approximately RMB149.8 million (2021: approximately RMB248.2 million), representing a decrease of approximately 39.6%.

The Group's AMR and other business segment recorded a revenue of approximately RMB88.1 million (2021: approximately RMB48.3 million), representing an increase of approximately 82.6%. Revenue from AMR and other business segment for the year under review accounted for approximately 58.8% (2021: 19.5%) of the Group's total revenue. The increase in revenue from AMR and other business segment for the year under review was mainly attributable to (i) the commercialization of the Group's broadband AMR products which led to the increase in sales of PLC modules and (ii) the winning of a major streetlight control project which led to the increase in sales of streetlight control products, partially offset by the decrease in revenue from AMR maintenance services as the market demand for the Group's AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology.

The outbreak of the Pandemic in early 2020 and its continuance in 2022 have affected the business and economic activities around the world and have brought about additional uncertainties to the Group's operating environment. The Pandemic has to a certain extent impacted the Group's operations and financial position.

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

During the year under review, the Group's SMIA business segment recorded a revenue of approximately RMB61.7 million (2021: approximately RMB199.9 million), representing a decrease of approximately 69.1%. Revenue from SMIA business segment for the year under review accounted for approximately 41.2% (2021: 80.5%) of the Group's total revenue.

The decrease in revenue from the SMIA business segment was mainly attributable to the unanticipated limitation imposed upon the Group in project sourcing and project delivery during the year under review as a consequence of China's highly restrictive Pandemic control measures. This resulted in the significant decrease in revenue as compared to the corresponding period in 2021.

The Group recorded an increase in loss attributable to the equity shareholders of the Company from approximately RMB55.3 million in the corresponding period in 2021 to approximately RMB118.6 million for the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in loss attributable to the equity shareholders of the Company was mainly attributable to (i) the recognition of impairment losses on goodwill and intangible assets arising from the Group's acquisitions of Green Harmony Limited ("**Green Harmony**") for the year under review while no impairment of goodwill and intangible assets have been recognised in the corresponding period in 2021, and (ii) the recognition of a net allowance for impairment losses on financial assets for the year under review as compared to the recognition of a net reversal for impairment losses on financial assets in the corresponding period in 2021.

RESEARCH AND DEVELOPMENT

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

As at 31 December 2022, the research and development team of the Group consisted of 47 employees (as at 31 December 2021: 51 employees), representing approximately 31% (as at 31 December 2021: approximately 31%) of the Group's total workforce, specializing in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As at 31 December 2022, the Group held a significant intellectual property portfolio, comprising 25 patents, 129 computer software copyrights and 9 IC layout designs registered, with 1 patent pending registration in the relevant jurisdiction, signifying the Group's achievements in research and development in PLC technology and MSI for the petroleum and petrochemicals industry.

FINANCIAL REVIEW

Revenue

Revenue decreased from approximately RMB248.2 million for the corresponding period in 2021 to approximately RMB149.8 million for the year under review, or by approximately 39.6%. The decrease was attributable to the decrease in revenue of approximately 69.1% from the SMIA business segment which was partially offset by the increase in revenue of approximately 82.6% from the AMR and other business segment.

The decrease in revenue from the SMIA business segment was mainly attributable to the unanticipated limitation imposed upon the Group in project sourcing and project delivery during the year under review as a consequence of China's highly restrictive Pandemic control measures, which resulted in the decrease in revenue by approximately 69.1% to approximately RMB61.7 million as compared to the corresponding period in 2021.

The increase in revenue from the AMR and other business segment was mainly attributable to (i) the commercialization of the Group's broadband AMR products which led to the increase in sales of PLC modules and (ii) the winning of a major streetlight control project which led to the increase in sales of streetlight control products, partially offset by the decrease in revenue from AMR maintenance services as the market demand for the Group's AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Gross profit decreased by approximately 9.1% to approximately RMB39.1 million for the year under review from approximately RMB43.0 million for the corresponding period in 2021.

Gross profit margin was approximately 26.1% for the year under review and increased by approximately 8.8 percentage points as compared with approximately 17.3% for the corresponding period in 2021. The increase in gross profit margin of the Group was mainly attributable to the increase in gross profit margin from the SMIA business segment by approximately 5.6% to approximately 18.6% for the year under review, partially offset by the decrease in gross profit margin from the AMR and other business segment by approximately 3.8% to approximately 31.3%.

The increase in gross profit margin from the SMIA business segment was mainly attributable to the increase in proportion of revenue from software license and production safety products which earned a relatively higher gross profit margin than that of other products or service lines.

The decrease in gross profit margin from the AMR and other business segment was mainly attributable to the increase in proportion of revenue from the sales of broadband AMR products which earned a relatively lower gross profit margin than that of narrowband AMR products.

Other income, (losses)/gains

Other losses of approximately RMB0.6 million was recognized during the year under review (for the corresponding period in 2021: other income, gains of approximately RMB6.2 million). The decrease was mainly attributable to (i) the recognition of loss on deregistration of subsidiary of approximately RMB5.1 million during the year under review; and (ii) a decrease in government grants for the year under review to approximately RMB2.9 million as compared to approximately RMB4.7 million for the corresponding period in 2021.

(Allowance)/reversal for impairment losses on financial assets, net

Allowance for impairment losses on financial assets of approximately RMB7.4 million was recognised during the year under review (for the corresponding period in 2021: reversal for impairment losses on financial assets of approximately RMB10.3 million). The allowance for impairment losses during the year under review was mainly made in respect of the long outstanding trade receivables from the Group's SMIA business segment, which was mainly caused by the prolonged late payment from the major customers and the difficulty of initiating recovery action or discussion with them as a consequence of China's highly restrictive Pandemic control measures. The reversal for impairment losses for the corresponding period in 2021 was mainly attributable to the Group's collection efforts made to recover the credit-impaired trade and other receivables which was one-off and similar scale of recovery did not recur during the year under review. The Group has been and will continue to be implementing actions to facilitate timely collection of outstanding receivables.

Selling and marketing expenses

Selling and marketing expenses decreased by approximately 30.0% to approximately RMB17.3 million for the year under review from approximately RMB24.7 million for the corresponding period in 2021. The decrease was mainly attributable to the non-recurrence of a one-off consultancy fee incurred by the Group's SMIA business segment during the year ended 31 December 2021, as the relevant project to which the consultancy was related had been secured by the Group successfully.

General and administrative expenses

General and administrative expenses decreased by approximately 9.2% to approximately RMB55.2 million for the year under review from approximately RMB60.8 million for the corresponding period in 2021. The decrease was primarily attributable to (i) the non-recurrence of a one-off consent fee of HK\$3 million incurred by the Group during the year ended 31 December 2021 for extension of the maturity date of the convertible bonds to 13 August 2022 under the Second Proposed Amendment (as defined below); (ii) the decrease in business entertainment incurred by the Group's SMIA business segment in line with the decrease in its revenue; and (iii) the decrease in depreciation of right-of-use asset.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

Research and development expenses increased by approximately 13.6% to approximately RMB22.3 million for the year under review from approximately RMB19.6 million for the corresponding period in 2021. The increase was mainly attributable to increased amortization of capitalised development costs related to broadband technology development as the Group's broadband products were commercialized during the year under review.

Finance costs

Finance costs decreased by approximately 22.4% to approximately RMB7.4 million for the year under review from approximately RMB9.5 million for the corresponding period in 2021. The decrease was mainly attributable to the full redemption of the promissory notes issued by the Company to Sailen International IOT Limited as part of the consideration for the acquisition of Green Harmony in 2021, and therefore the interest expenses on promissory notes did not recur during the year under review, partially offset by the increase in interest expenses on borrowings which were mainly drawn down for refinancing the redemption of the convertible bonds and other accrued interests.

Income tax credit

Income tax credit of approximately RMB17.9 million was recorded during the year under review (for the corresponding year in 2021: income tax credit of approximately RMB6.8 million). The recognition of income tax credit was mainly attributable to the derecognition of deferred tax assets arising from tax losses and derecognition of deferred tax liabilities arising from impairment losses and amortisation of intangible assets.

Impairment of goodwill and intangible assets

In accordance with the relevant requirements under "Hong Kong Accounting Standard 36 — Impairment of Assets" and "Hong Kong Accounting Standard 38 — Intangible Assets", the Group performed impairment test with assistance of an external valuation firm for the goodwill and intangible assets arising from the acquisitions of North Mountain Information Technology Company Limited ("**NM Technology**") and Green Harmony.

After conducting impairment tests, the Group recognized:

- (i) impairment loss of goodwill arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2021: nil) and RMB20.7 million for the year under review (2021: nil) respectively; and
- (ii) impairment losses of intangible assets arising from the Group's acquisitions of NM Technology and Green Harmony of nil for the year under review (2021: nil) and RMB46.7 million for the year under review (2021: nil) respectively.

After which, carrying amount of two cash-generating units have been reduced to recoverable amount. Please refer to note 21 to the consolidated financial statements as set out in this report for further details.

During the year under review, there was a significant decrease in revenue and gross profit of the SMIA business segment as compared to the corresponding period in 2021, which was primarily attributable to the cessation of the construction projects and delay of the contracts awarded during the year. Given the financial performance of the SMIA business segment for the year ended 31 December 2022 had not achieved the 2022 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, reassessed the sale pipeline and gross profit forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss Attributable to Equity Shareholders of the Company

As a result of the above factors and the fair value gains on financial instruments at fair value through profit or loss of approximately RMB1.4 million during the year under review, the Company recorded a loss attributable to equity shareholders of the Company for the year under review of approximately RMB118.6 million (2021: loss attributable to equity shareholders of the Company of approximately RMB55.3 million).

Liquidity and Financial Resources

During the year under review, the Group's operations were mainly financed by (i) internal resources, including but not limited to existing cash and cash equivalents, cash flow generated from operating activities; (ii) net proceeds generated from the listing of shares ("**Shares**") of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 9 June 2017; and (iii) net proceeds generated from the Subscriptions (as defined below) of new shares under general mandate completed in October 2022. The Board believes that the Group's liquidity needs will be satisfied.

As of 31 December 2022, the Group's current assets amounted to approximately RMB233.3 million (as of 31 December 2021: approximately RMB263.2 million), with cash and cash equivalents totaling approximately RMB86.7 million (as of 31 December 2021: approximately RMB91.7 million). The cash and cash equivalents of the Group are principally held in RMB, HKD and USD.

As of 31 December 2022, the Group's total interest-bearing liabilities amounted to RMB132.8 million (as of 31 December 2021: RMB133.5 million), representing convertible bonds, borrowings and lease liabilities. The Group had interest-bearing liabilities of RMB126.7 million (as of 31 December 2021: RMB121.4 million) and RMB6.1 million (as of 31 December 2021: RMB12.2 million) which will be due repayable within one year and after one year respectively with coupon rates ranging from 0% to 5% per annum. The net debt-to-equity ratio (referred as to the gearing ratio: interest-bearing liabilities less cash and cash equivalents divided by total equity) was approximately 62.0% as of 31 December 2022 (as of 31 December 2021: 21.6%).

Issue of convertible bonds

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

On 13 August 2021, the Company and SRA entered into the second amendment and extension agreement (“**Second Amendment and Extension Agreement**”), pursuant to which, the Company and SRA conditionally agreed to further extend the Extended Maturity Date of the Convertible Bonds by 12 months from 13 August 2021 to the new maturity date of 13 August 2022 (i.e. 48 months from the Issue Date) (the “**Maturity Date**”) by way of executing the second supplemental deed of Instrument (“**Second Supplemental Deed**”) in connection with the second proposed amendment to the terms and conditions of the Convertible Bonds as set out in the Instrument as contemplated under the Second Amendment and Extension Agreement and the Second Supplemental Deed (“**Second Proposed Amendment**”).

As at 2 September 2022, the Company has fully redeemed its Convertible Bonds at their principal amounts of HK\$150,000,000 (the “**Redemption**”) by refinancing through a loan from the bondholder. The interest accrued thereon from the last interest payment date up to the Maturity Date has also been fully paid.

Following the Redemption, the Convertible Bonds were cancelled in whole and the Company was discharged from all of the obligations under and in respect of the Convertible Bonds.

Please refer to the announcements of the Company dated 31 July 2018 and 13 August 2018 for further details of the Convertible Bonds; the announcements of the Company dated 24 June 2020 and 13 August 2020 for further details in relation to the Proposed Amendment; the announcements of the Company dated 13 August 2021, 19 August 2021, 3 September 2021 and 6 October 2021 for further details in relation to the Second Proposed Amendment in relation to the further extension of the maturity date of the Convertible Bonds, and the announcements of the Company dated 15 August 2022 and 2 September 2022 for further details in relation to the Redemption.

Subscriptions of new Shares under General Mandate

References are made to the announcement (“**GM Subscription Announcement**”) of the Company dated 21 September 2022 in relation to the subscriptions (“**Subscriptions**”) of new ordinary shares of HK\$0.0001 each in the share capital of the Company under the general mandate (“**General Mandate**”) to allot, issue and deal with Shares granted to the Directors by resolution of the shareholders of the Company passed at the annual general meeting of the Company held on 24 June 2022, and the announcement of the Company dated 12 October 2022 in relation to the completion of Subscriptions.

On 21 September 2022, the Company entered into subscription agreements (each a “**Subscription Agreement**”, and collectively, the “**Subscription Agreements**”) with five subscribers (“**Subscribers**”), all being independent third parties, whereby the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue an aggregate of not more than 120,880,000 subscription Shares (“**Subscription Shares**”) at the subscription price (“**Subscription Price**”) of HK\$0.18 each. The Subscribers whom entered into the Subscription Agreement with the Company were, Mr. Li Maosheng (“**Subscriber A**”), Ms. Zheng Aihong (“**Subscriber B**”), Mr. Wu Jingdong (“**Subscriber C**”), Mr. Zhao Dong (“**Subscriber D**”) and Mr. Wang Wenyuan (“**Subscriber E**”).

The Subscription Price represents a discount of 10% to the closing price of HK\$0.2 per Share as quoted on the Stock Exchange on 21 September 2022, being the date of the Subscription Agreements.

Completion of the Subscriptions with Subscriber A and Subscriber C, respectively, took place on 12 October 2022 pursuant to the respective terms of the Subscription Agreements entered into with each of these Subscribers. A total of 81,180,000 Subscription Shares have been successfully allotted and issued to Subscriber A and Subscriber C at the Subscription Price under the General Mandate. 50,072,500 Subscription Shares were subscribed by Subscriber A and 31,107,500 Subscription Shares were subscribed by Subscriber C. The aggregate nominal value of the Subscription Shares subscribed by Subscriber A and C is HK\$8,118.

MANAGEMENT DISCUSSION AND ANALYSIS

After arm's length negotiations between the Company and each of Subscriber B, Subscriber D and Subscriber E, on 12 October 2022, each of Subscriber B, Subscriber D and Subscriber E decided not to proceed with the Subscriptions for personal reasons. Each of the Subscription Agreements entered with Subscriber B, Subscriber D and Subscriber E lapsed in accordance with its respective terms and all parties thereto were released and discharged from their respective obligations from the relevant Subscription Agreement, and did not proceed with the completion of the subscription of a total of 34,217,500 Subscription Shares.

The Directors considered that the Subscriptions represent a good opportunity for the Company to reduce its debts without having to increase the Group's financing costs. The net proceeds from the Subscriptions by Subscriber A and Subscriber C, after deduction of the related expenses, are approximately HK\$14,554,000, representing a net subscription price of approximately HK\$0.179 per Subscription Share, which was entirely used for lowering the gearing ratio of the Group by repayment of the outstanding indebtedness during the year under review. The use of net proceeds from the Subscriptions by Subscriber A and Subscriber C were utilized in line with the intentions as disclosed in the GM Subscription Announcement.

Capital Commitments

As of 31 December 2022, the Group had a total capital commitment of RMB1.8 million, contracted for but not yet incurred (as of 31 December 2021: RMB2.8 million). Such capital commitments are expected to be funded by the Group's internal resources.

Contingent Liabilities

As at 31 December 2022, the Group had no contingent liabilities (as at 31 December 2021: nil).

Charge on assets

As at 31 December 2022, the Group had no charge on assets (as at 31 December 2021: nil).

Pursuant to a repayment agreement entered into by the Company and the bondholder on 2 September 2022 for refinancing the redemption of the convertible bonds, the entire issued shares of two subsidiaries of the Company, namely Risecomm Co. Ltd. and Risecomm (HK) Technology Co. Limited, shall be pledged as security for borrowings of approximately RMB112,818,000 on or before 31 January 2023. As at the date of this report the relevant procedures for such share charges are still in process. Saved as disclosed, the Group had no other charge on assets as at the date of this report.

Significant investments

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

Material Acquisition and Disposal of Subsidiaries and Associated Companies

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In 2022, State Grid continues to commit to the application of broadband technology in the Electric Energy Data Acquisition Systems, and will shortly initiate the transition from broadband single-mode technology to broadband dual-mode technology. The Group is currently researching and developing new broadband dual-mode products, and will continue to promote and expand its PLC broadband products to more provincial network markets, thereby strengthening the competitiveness of the Group's broadband products in the domestic market. In addition, with the PRC government's promotion of smart city construction, support for energy conservation and emission reduction, and the continuous expansion of the overseas market for smart meters under the Belt and Road Initiative, the market of PLC technology is expected to maintain a good development trend in the next few years, which will expect to promote the sales of various products under the Group's AMR and other business line.

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Yue Jingxing (岳京興) (“Mr. Yue”), aged 65, 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, who is responsible for overall strategic planning, research and development directions and business development of the Group. Due to work allocation, Mr. Yue has ceased to act as the chief executive officer of the Company with effect from 24 June 2020 but remains to be an executive Director and a member of the remuneration committee of the Company. Mr. Yue was appointed as the Chairman of the Board on 5 July 2021.

Mr. Yue has been a director of Risecomm (HK) Holding Co. Limited (“**Risecomm HK**”), Risecomm Microelectronics (Shenzhen) Co., Ltd. (“**Risecomm WFOE**”), Wuxi Risecomm Communication Technology Company Limited (“**Risecomm Wuxi**”), Risecomm (HK) Technology Co. Limited (“**Risecomm HK Technology**”), Risecomm Co. Ltd. (“**Old Cayman**”), NM Technology and Main Fullness Limited since December 2015, January 2007, October 2010, December 2015, September 2006, April 2018 and August 2022, 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 25 years of experience in IC design. Prior to founding the Group in May 2006, Mr. Yue worked in Hughes Network Systems (now known as Hughes), a company in U.S. 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 U.S. in May 1991.

As of 31 December 2022, Mr. Yue was interested in certain Shares. Please refer to the section headed “Directors’ and Chief Executives’ Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” in this report for further details.

Lau Wai Leung, Alfred (劉偉樑) (“Mr. Lau”), aged 42, has been appointed as an executive Director with effect from 19 January 2021. Mr. Lau is also the company secretary of the Company and the finance director of Risecomm HK. He has been appointed as a company secretary of the Company in July 2020. Prior to his appointment of company secretary, Mr. Lau was a director of the Company from 22 November 2017 to 24 June 2020. On 22 April 2022, Mr. Lau was appointed as a member of the nomination committee of the Company.

Mr. Lau has more than 20 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 GEM of the Stock Exchange (stock code: 8200) since 16 December 2016 and Xinming China Holdings Limited, a company listed on Main Board of the Stock Exchange (stock code: 2699) since 18 November 2021. Mr. Lau has also been an independent non-executive director of Jianzhi Education Technology Group Company Limited, a company listed on the NASDAQ (stock code: JZ) since 26 August 2022.

Mr. Lau was an independent non-executive director of Samson Paper Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 731) from 17 July 2020 to 21 May 2021, and re-designated as an executive director since 21 May 2021. On 26 January 2022, Mr. Lau resigned as an executive director of such company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Jiang Feng (江峰) (“Mr. Jiang”), aged 49, was appointed as an executive Director on 19 April 2021.

Mr. Jiang has extensive experience in sales and sales management. He has over 25 years of working experience in petroleum and petrochemical industries. He obtained a bachelor’s degree in Exploration Geophysics from Jiangnan Petroleum Institute* (江漢石油學院) (currently known as Yangtze University (長江大學)) in June 1994 and obtained a master’s degree of Business Administration from Communication University of China (中國傳媒大學) in July 2014.

Mr. Jiang is the sales director of Beijing Hongteng Weitong Technology Co., Ltd (北京鴻騰偉通科技有限公司), which is one of the subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Yu Lu (于路) (“Mr. Yu”), aged 60, was appointed as a non-executive Director on 9 September 2021. Mr. Yu obtained a bachelor of Arts degree in English from Beijing Union University (北京聯合大學) in July 1988 and obtained an Executive Master’s degree of Business Administration (EMBA) from Nankai University (南開大學) in December 2012. Mr. Yu has worked in Tianjin Precious Metals Exchange Co., Ltd. since 2008 and has been its vice-chairman since 2013. He has extensive experience in the areas of investment and financial services.

As of 31 December 2022, Mr. Yu 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.

Ding Zhigang (丁志綱) (“Mr. Ding”), aged 62, was appointed as a non-executive Director on 13 January 2022. Mr. Ding obtained a bachelor of laws degree in economic law from China University of Political Science and Law (中國政法大學) in July 1986. He then obtained a master’s degree of monetary banking from Chinese Academy of Social Sciences (中國社會科學院) in November 1998. Mr. Ding is a lawyer of the People’s Republic of China, and he also has extensive experience in investment.

As of 31 December 2022, Mr. Ding was interested in certain Shares. Please refer to the section headed “Substantial Shareholders’ Interests and Short Positions in the Shares and Underlying Shares” in this report for further details.

Sun Peng (孫鵬) (“Mr. Sun”), aged 39, was appointed as a non-executive Director on 22 April 2022. Mr. Sun resigned as non-executive Director on 17 January 2023. Mr. Sun obtained a bachelor of laws degree from Tianjin University (天津大學) in July 2006. Mr. Sun has extensive experience in investment and corporate finance. He is currently the chairman of Shenzhen Futian Supply Chain Technology Finance Association* (深圳市福田區供應鏈科技金融協會).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zou Heqiang (鄒合強) (“Mr. Zou”), aged 54, has been appointed as the independent non-executive Director on 29 May 2019. In addition, Mr. Zou is also a member of the audit committee of the Company.

Mr. Zou graduated from Shanghai Medical University in 1991 with major in forensic medicine and obtained a master degree in Law from the Shanghai Academy of Social Sciences in 2005. Mr. Zou holds the qualifications of lawyer and deputy chief physician of general surgery.

After graduating from undergraduate degree, Mr. Zou has been engaged in the clinical work and management of pathology research, general surgery and intensive care, and obtained the title of deputy chief physician of general surgery. He changed to the lawyer industry in 2008 and is currently practicing at Shanghai Yingdong Law Firm, mainly focusing on the medical dispute resolution, system construction in the field of medical safety management and contract disputes. Mr. Zou was appointed as the legal counsel of the Shanghai Jing’an District Health Commission (上海市靜安區衛生健康委員會) and the mediator of the Shanghai Jing’an District Medical Dispute Resolution Committee (上海市靜安區醫患糾紛調解委員會). At the same time, he has been employed as the legal advisor for certain companies and has accumulated extensive experiences in corporate compliance and risk control.

Lo Wan Man (盧韻雯) (“Ms. Lo”), aged 48, has been appointed as the independent non-executive Director on 29 May 2019. On 5 July 2021, Ms. Lo was appointed as the chairman of the nomination committee of the Company. In addition, Ms. Lo is also a member of the audit committee and remuneration committee of the Company.

Ms. Lo has over 20 years of experience in the area of accounting, auditing and financial management for both listed and private companies in Hong Kong and the PRC by working in an international accounting firm and other listed companies. She obtained a master of science in finance from City University of Hong Kong in July 2005. She worked at Ernst & Young from March 2001 to December 2003. She was then employed by Emperor Motion Picture (Hong Kong) Limited as finance manager from May 2004 to July 2008. Subsequently, she worked at New World Telecommunications Limited as finance manager in July 2008 until her resignation in March 2010. She was a finance manager of Midland IC&I Limited from May 2011 to January 2014. She was employed by MCGI Consultancy Limited as a senior consultant from May 2015 to September 2022. She has been working at Acclime Corporate Services Limited as director since October 2022.

Ms. Lo has been appointed as an independent non-executive director of Sky Light Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3882) since 28 November 2022.

Since April 2019, she has been appointed as the company secretary and authorized representative of Man Shun Group (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1746). In addition, Ms. Lo has been appointed as a company secretary and authorized representative of K. H. Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1557) since 3 October 2022.

Ms. Lo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2003.

Ong King Keung (王競強) (“Mr. Ong”), aged 47, was appointed as an independent non-executive Director on 16 May 2017. Mr. Ong is the Chairman of the audit committee and remuneration committee of the Company, and a member of the nomination committee of the Company. Mr. Ong is responsible for providing independent judgment and scrutinizing the performance of the Group.

Mr. Ong obtained a bachelor’s degree in accountancy from the Hong Kong Polytechnic University and a master’s degree in corporate finance from the City University of Hong Kong. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 15 years of experience in auditing and accounting industry. Mr. Ong is currently the company secretary of Harbour Digital Asset Capital Limited (formerly known as Unity Investments Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 913).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ong is an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 3768) since November 2021.

Mr. Ong was an independent non-executive director of China Water Affairs Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 855) for the period from March 2007 to November 2019. Mr. Ong was an independent non-executive director of Bingo Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8220) for the period from December 2016 to May 2022; Mr. Ong was an independent non-executive director of K Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8475) for the period from May 2021 to June 2022.

Mr. Ong had also been an independent non-executive director of Deson Construction International Holdings Limited (now known as Smart City Development Holdings Limited), a company listed on the GEM of the Stock Exchange (stock code: 8268) since December 2014 and has been subsequently re-designated as a non-executive director since December 2015. In July 2019, Mr. Ong resigned as non-executive director of such company. Mr. Ong was an independent non-executive director of My Heart Bodibra Group Limited (now known as Ocean Star Technology Group Limited), a company listed on GEM of the Stock Exchange (stock code: 8297) for the period from December 2017 to May 2021. Mr. Ong has not held any other directorships in any public listed companies in the past three years

SENIOR MANAGEMENT OF THE GROUP

Chen Junling (陳俊玲) (“Ms. Chen”), aged 50, 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.

Ms. Chen has over 20 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.

Liu Ming (劉明) (“Mr. Liu”), aged 52, 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) Technology Company Limited (“**Risecomm Beijing Tech**”) since May 2016.

Mr. Liu has approximately 30 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 48, is the vice president and 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 and Risecomm HK Technology since December 2015. She has been a director of Risecomm WFOE since May 2018. She has also been the vice president of Risecomm WFOE since April 2020.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chen SY has approximately 20 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.

Zhang Youyun (張友運) ("Mr. Zhang"), aged 63, has joined the Group as an administrative controller of Risecomm WFOE since June 2006 and has been the executive vice president of Risecomm WFOE since April 2015. Mr. Zhang has been a director of Risecomm WFOE and NM Technology since May 2018 and April 2018, respectively. Mr. Zhang was an executive Director until 31 July 2019. Mr. Zhang was a director of Risecomm Beijing Tech from May to August 2016.

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

Mr. Zhang obtained a bachelor's degree in Industrial Electrical Automation from Hua Dong Textile Institute (華東紡織工學院) (currently known as Donghua University (東華大學)) in the PRC in July 1982. In May 2018, Mr. Zhang was awarded the "Electrical Engineering Senior Engineer" qualification certificate issued by Shenzhen Human Resources and Social Security Bureau (深圳人力資源和社會保障局).

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 31 December 2022.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 August 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 23 and 24 to the consolidated financial statements, respectively.

SHARE CAPITAL

As of 31 December 2022, the total issued share capital of the Company was approximately HKD185,709 divided into 1,857,088,606 ordinary Shares of nominal value of HKD0.0001 each. Details of movements during the year under review in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DEBENTURES IN ISSUE

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

BUSINESS REVIEW

A fair review of the business of the Group during the year under review, a discussion about the Group's future business development and an analysis of the Group's performance using financial key performance indicators are set out in the sections headed "Business Review" and "Prospects" in the "Management Discussion and Analysis" in this report and a discussion of the principal risks and uncertainties facing by the Group is included in this section and note 6 to the consolidated financial statements. The review forms part of this Directors' Report.

ENVIRONMENT PROTECTION

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

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

The two major operating subsidiaries of the Group received ISO14001:2015 environment management system certifications, which are valid to May 2024 and December 2024 respectively 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.

DIRECTORS' REPORT

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

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

The two major operating subsidiaries of the Group have received ISO45001:2018 certifications for occupational health and safety management system, which are valid to May 2024 and December 2024 respectively and subject to renewal. The Group has implemented safety measures at its product assembly hub 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 and provision of SMIA services and products. During the year under review, the Group's AMR business was largely affected by the market environments in China's AMR deployment, and procurement paces of State Grid and China Southern Power Grid Co., Ltd. ("**Southern Grid**"). The outbreak of the Pandemic in early 2020 and its continuance in 2022 have affected the business and economic activities around the world and have brought about additional uncertainties to the Group's operating environment. The Pandemic has to a certain extent impacted the Group's operations and financial position. The 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 and the escalating geopolitical tension including the economic conflict between U.S. and China). The Group's current operations and development are under influence of certain factors mainly including:

DIRECTORS' REPORT

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 competition landscape has been changed as a portion of the PLC market shares retained by SOE, in general. Hence, the competition among domestic PLC market participants are even more intense although the overall market demand in PLC remains strong and promising.

To mitigate 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.

SMIA business

The ongoing economic conflict between the world's two largest national economies, China and the U.S. affected the strategic development and expansion planning on the State-owned enterprises, particularly in the petroleum industry which resulted in the reconsideration on the prioritization of resources deployment. This may lead to unexpected delay in delivery/implementation of certain contracts held by the Group. To mitigate the effect from SMIA business risk, the Group will further explore potential customers in different industries.

Exchange rate risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in HKD or USD. The fluctuation of exchange rate of the currencies will have certain impact on the Group's business which are settled in foreign currencies. During the year under review and the corresponding period in 2021, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations. The foreign currency risk is managed and monitored on an on-going basis by senior management of the Group.

DIRECTORS' REPORT

DIVIDEND POLICY

The Company has adopted a Dividend Policy on payment of dividends. The Company intends to distribute no less than 30% of its profit attributable to equity shareholders as dividends to its Shareholders, subject to the conditions and factors as set out below:

- results of operations;
- working capital and cash position;
- future business and earnings;
- capital requirements;
- contractual restrictions, if any; and
- any other factors that the Directors may consider relevant.

Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the provisions of the Articles of Association of the Company (the "**Articles**") and all applicable laws and regulations and the factors set out above. Any final dividend for a financial year will be subject to Shareholders' approval.

DIRECTORS' REPORT

FINAL DIVIDEND

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to Shareholders as at 31 December 2022 comprised the share premium and accumulated losses of Nil (2021: Nil).

DIRECTORS

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

Executive Directors

Mr. Yue Jingxing (*Chairman*)
Mr. Lau Wai Leung, Alfred
Mr. Jiang Feng

Non-Executive Directors

Mr. Yu Lu
Mr. Ding Zhigang (*appointed on 13 January 2022*)
Mr. Sun Peng (*appointed on 22 April 2022 and resigned on 17 January 2023*)
Mr. Cheung Fan (*resigned on 22 April 2022*)

Independent Non-Executive Directors

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

DIRECTORS' PROFILES

Directors' profiles are set out on pages 14 to 18 of this report.

Pursuant to Article 84(1) of the Articles, Mr. Yue Jianxing, Mr. Lau Wai Leung, Alfred and Mr. Jiang Feng will retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' REPORT

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Directors' biographical details since the date of the Interim Report 2022 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Ms. Lo Wan Man	<p>Ms. Lo has been appointed as an independent non-executive director of SKY LIGHT HOLDINGS LIMITED 天彩控股有限公司, a company listed on the Main Board of the Stock Exchange (stock code: 3882), with effect from 28 November 2022.</p> <p>Ms. Lo has been appointed as company secretary and authorized representative of K. H. Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1557), with effect from 3 October 2022.</p>
Mr. Sun Peng	<p>Mr. Sun has tendered his resignation as a non-executive Director of the Company due to his other work commitments with effect from 17 January 2023.</p>
Mr. Lau Wai Leung, Alfred	<p>Mr. Lau has been appointed as an independent non-executive director of Jianzhi Education Technology Group Company Limited, a company listed on the NASDAQ (stock code: JZ), with effect from 26 August 2022.</p>

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Director has entered into a service contract with the Company for an initial term of three years which shall continue thereafter unless and until the Company or the Director serves a written notice of termination three months in advance during the term of the agreement or anytime thereafter. Particulars of the service contracts of the Directors are in all material respects the same. The compensation of the Executive Directors is subject to review each year.

None of the Non-Executive Directors (including the Independent Non-Executive Directors) has entered into any service contract with the Company. Pursuant to the letters of appointment of the Non-Executive Directors (including the Independent Non-Executive Directors), the term of appointment of each of such Directors is for three years commencing from the date of appointment.

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

RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 47 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

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 19 to the consolidated financial statements.

DIRECTORS' REPORT

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

As of 31 December 2022, 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 SFO as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Name of Director	Relevant company	Nature of interest	Number of Shares in the relevant company (Note 1)	Approximate Percentage* of interest
Mr. Yue Jingxing	The Company	Interest in a controlled corporation (Note 2(i))	93,543,624 (L)	5.0%
		Beneficial owner (Note 2(ii))	856,555 (L)	0.05%
Mr. Yu Lu	The Company	Beneficial owner (Note 3)	172,522,500 (L)	9.3%
Mr. Ding Zhigang	The Company	Beneficial owner (Note 4)	340,700,925 (L)	18.3%

* The percentage represents the number of shares/underlying shares involved divided by the number of the issued Shares as of 31 December 2022.

Notes:

- (1) The letter "L" denotes the Directors' long position in the Shares.
- (2) Mr. Yue is the sole shareholder of Seashore Fortune Limited ("Seashore Fortune") which holds 93,543,624 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 under the Pre-IPO Share Option Scheme adopted by the Company on August 25, 2016 (the "Pre-IPO Share Option Scheme").
- (3) Mr. Yu Lu is a non-executive Director.
- (4) Mr. Ding Zhigang is a non-executive Director.
- (5) The total issued shares of the Company was 1,857,088,606 Shares as of 31 December 2022.

Save as disclosed above, as of 31 December 2022, 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.

DIRECTORS' REPORT

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

As of 31 December 2022, 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	93,543,624 (L)	5.0%
Mr. Wang Shiguang	Interest of spouse (Note 2)	97,527,845 (L) (Note 5)	5.3%
Ms. Chen Junling	Interest in a controlled corporation (Note 2)	97,527,845 (L) (Note 5)	5.3%
Magical Success Holdings Limited ("Magical Success")	Beneficial owner (Note 2)	97,527,845 (L) (Note 5)	5.3%
SB Asia Investment Fund II L.P. ("SAIF")	Beneficial owner (Notes 3 & 4)	197,340,537 (L) (Note 5)	10.6%
SAIF II GP L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	10.6%
SAIF Partners II L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	10.6%
SAIF II GP Capital Ltd.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	10.6%
Mr. Andrew Y. Yan	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 5)	10.6%
Cisco System, Inc	Interest in a controlled corporation (Note 4)	197,340,537 (L) (Note 5)	10.6%
Spitzer Fund VI L.P.	Beneficial owner	123,763,311 (L) (Note 5)	6.7%

* The percentage represents the number of Shares/underlying Shares involved divided by the number of the issued Shares as of 31 December 2022.

DIRECTORS' REPORT

Notes:

- (1) The letter "L" denotes the person's or corporation's long position in the Shares.
- (2) Ms. Chen Junling is the sole shareholder of Magical Success which held 97,527,845 Shares. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested. Furthermore, Mr. Wang Shiguang, the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen's interest in the Company by virtue of the SFO.
- (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 31 December 2022.
- (6) The total issued shares of the Company was 1,857,088,606 Shares as of 31 December 2022.

Save as disclosed above, as of 31 December 2022, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENT

During the year under review, save for the Convertible Bonds fully redeemed and cancelled in September 2022 and the Share Option Schemes as set out in the paragraph headed "Share Option Schemes" of this Directors' Report, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year under review. Please refer to the section headed "Management Discussion and Analysis" and notes 41 and 42 to the consolidated financial statements for further information about the Convertible Bonds and the Share Option Schemes.

DIRECTORS' REPORT

SHARE OPTION SCHEMES

Share Option Scheme

As disclosed in the prospectus of the Company dated 29 May 2017 (the "**IPO Prospectus**") the Company adopted a share option scheme (the "**Share Option Scheme**") on 16 May 2017. The purpose of the Share Option Scheme is to enable the Company to grant share options to selected participants as incentives for their contribution to the Group. All Directors, employees, suppliers, customers, persons that, among others, contributed to the development and performance of the Group, advisers or consultants of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing from 9 June 2017. The remaining life of the Share Option Scheme was approximately 4 years as at 31 December 2022.

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 9 June 2017, being 80,000,000 Shares (the "**Scheme Limit**"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). As at the date of this Directors' Report, the total number of Shares available for allotment and issue pursuant to the exercise of options granted under the Share Option Scheme was 6,843,811 Shares, representing about 0.37% of the issued share capital of the Company. As at the date of this Directors' Report, the number of options available for grant under the Scheme Limit was 64,500,000 Shares. As at the date of this Directors' Report, the Board may renew the Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

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

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

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HKD1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years commencing from 9 June 2017. A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Board, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotation 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.

DIRECTORS' REPORT

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

Employees

Date of grant	Vesting date	Exercisable period	Outstanding as at 31 December 2021	Exercise Price per Share HKD (Note 1)	During the year under review				Outstanding as at 31 December 2022
					Granted	Exercised	Cancelled	Lapsed	
3 September 2018	3 September 2020	From 3 September 2020 to 2 September 2026	2,281,270	1,724	-	-	-	-	2,281,270
3 September 2018	3 September 2021	From 3 September 2021 to 2 September 2026	2,281,270	1,724	-	-	-	-	2,281,270
3 September 2018	3 September 2022	From 3 September 2022 to 2 September 2026	2,281,271	1,724	-	-	-	-	2,281,271
Total			6,843,811		-	-	-	-	6,843,811

Notes:

- The exercise price of and the number of Shares entitled to be subscribed for under the outstanding share options have been adjusted following the completion of 1-for-2 rights issue of the Company on 17 December 2021.

No share option was granted to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or an associate (as defined in the Listing Rules) of any of them under the Share Option Scheme during the year under review.

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

DIRECTORS' REPORT

Pre-IPO Share Option Scheme

As disclosed in the IPO Prospectus, the Company adopted the Pre-IPO Share Option Scheme on 25 August 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 IPO 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 IPO 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 IPO Prospectus) or the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme;
- (c) the eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of the Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries;
- (d) the conditions which the Board may in its absolute discretion to consider (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before an option can be exercised) as it may think fit; and
- (e) except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange.

HKD1.00 was payable by each grantee as consideration for grant of the options.

The Pre-IPO Share Option Scheme will remain in force for a period of 10 years commencing from 25 August 2016. The remaining life of the Pre-IPO Share Option Scheme was approximately 3 years as at 31 December 2022.

DIRECTORS' REPORT

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

Director(s)

Name of Director(s)	Date of grant	Exercisable period	Outstanding as at 31 December 2021	Exercise Price per Share (Note 1) USD	During the year under review				Outstanding as at 31 December 2022
					Granted	Exercised	Cancelled	Lapsed	
Mr. Yue Jingxing	25 August 2016	From 25 August 2016 to 25 March 2024	856,555	0.000302	-	-	-	-	856,555
	Total		856,555		-	-	-	-	856,555

Notes:

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

No further options were granted under the Pre-IPO Share Option Scheme on or after 9 June 2017 as the right to do so terminated on 9 June 2017.

Save as disclosed above, no other Pre-IPO Share Options were vested, exercised, cancelled or lapsed during the year under review.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 16 to the consolidated financial statements.

The Group's contributions to such defined contribution plans vest fully and immediately with the employees. Accordingly, there are no forfeited contributions under such plans which may be used by the Group as employer to reduce its existing level of contributions for the year ended 31 December 2022.

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 47 to the consolidated financial statements. None of the related party transactions disclosed in note 47(a) to the consolidated financial statements constitutes a connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company during the year under review, or as such, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

MANAGEMENT CONTRACT

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

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

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Shares during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

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

During the year under review, the Group's largest customer accounted for approximately 24.3% (2021: approximately 36.9%) of the total revenue of the Group and the aggregated revenue attributable to the five largest customers accounted for approximately 63.6% (2021: approximately 74.0%) of the total revenue of the Group.

During the year under review, the Group's largest supplier (including outsourced service provider) accounted for approximately 14.5% (2021: approximately 31.4%) and the aggregated purchases (including outsourced service fees) attributable to the Group's five largest suppliers (including outsourced service providers) accounted for approximately 51.2% (2021: approximately 64.7%) of the total purchases (including outsourced service fees) of the Group.

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' REPORT

ISSUE FOR CASH OF EQUITY SECURITIES

During the year under review, the Company has conducted/completed the following fund-raising activity for cash:

Date of announcement	Event	Number of Shares and issue (approximate)	Net proceeds and net price per Share (approximate)	Closing price on the date of signing of the Subscription agreement per Share	Intended use of proceeds as announced	Actual use of proceeds
21 September 2022, 12 October 2022	Subscriptions of new shares under general mandate	81,180,000 Subscription Shares at the Subscription Price of HK\$0.180 per Subscription Share for an aggregate amount of HK\$14,612,400.	HK\$14.5 million and the net price is HK\$0.179	HK\$0.2	To be used for lowering the gearing ratio of the Group by repayment of the outstanding indebtedness.	All net proceeds have been used as intended.

The Directors considered that such subscriptions represent good opportunity for the Company to reduce its debts without having to increase the Group's financing costs. Please refer to the section headed "Subscriptions of new Shares under General Mandate" in the "Management Discussion and Analysis" in this report for further details.

USE OF PROCEEDS

From Initial Global Offering

References are made to the announcements of the Company dated 8 June 2017, 21 June 2017, 3 July 2019 and 29 March 2022. The aggregated net proceeds from the global offering of the shares of the Company in connection with the Listing and exercise of the over-allotment option by China Galaxy International Securities (Hong Kong) Co., Limited (on behalf of the International Underwriters (as defined in the Prospectus of the Company (the "IPO Prospectus"))) was approximately HK\$158.2 million. Proposed application of net proceeds as stated in the IPO Prospectus had been adjusted according to the principles as specified in the section headed "Future Plans and Use of Proceeds" of the IPO Prospectus.

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

On 29 March 2022, the Board resolved to further change the use of the unutilised net proceeds (the "2022 Re-allocation"). For details of the 2022 Re-allocation, please refer to the announcement of the Company dated 29 March 2022.

DIRECTORS' REPORT

The following table presented the utilisation of the net proceeds during the year under review after the 2019 Re-allocation made as of 3 July 2019 and the 2022 Re-allocation made as of 29 March 2022:

	Original planned use of net proceeds as stated in the IPO Prospectus HKD' million	2019 Re-allocation on 3 July 2019 HKD' million	2022 Re-allocation on 29 March 2022 HKD' million	Amount utilised as at 31 December 2022 HKD' million	Unutilised net proceeds as at 31 December 2022 HKD' million
Research and development of the PLC technology	95.7	(37.8)	–	55.8	2.1
Sales and marketing	32.0	(6.9)	–	13.3	11.8
Repayment of an entrusted bank loan	14.7	–	–	14.7	–
Working capital and general corporate purposes	15.8	–	14.0	29.8	–
Repayment of interest expenses	–	44.7	(14.0)	30.7	–
	158.2	–	–	144.3	13.9

As of the date of this report, the Company does not anticipate any change to the above plan of use of proceeds. The remaining unutilised net proceeds as at 31 December 2022 are expected to be fully utilised on or before 31 December 2024.

From the Subscriptions

References are made to the GM Subscription Announcement and the announcement of the Company dated 12 October 2022 in relation to the completion of Subscriptions. The aggregated net proceeds derived from the Subscriptions were approximately HKD14.5 million.

During the year under review, the net proceeds had been fully applied for lowering the gearing ratio of the Group by repayment of the outstanding indebtedness in accordance with the intentions as disclosed in the GM Subscription Announcement.

EMPLOYEE INFORMATION

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

As at 31 December 2022, the Group had an aggregate of 151 employees (as at 31 December 2021: 163 employees). During the year under review, staff costs, including Directors' remuneration, was approximately RMB38.9 million (2021: approximately RMB36.3 million). The Group recruited and promoted individual persons according to their capabilities and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and prevailing market salary scale.

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

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS FOR THE 2023 AGM

The register of members of the Company will be closed from Friday, 16 June 2023 to Wednesday, 21 June 2023 (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 Wednesday, 21 June 2023 (the “**2023 AGM**”) or any adjournment thereof. In order to be qualified for attending and voting at the 2023 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Thursday, 15 June 2023.

EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2022 and up to the date of this report.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years are set out on page 166 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.

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

The fundamental reason for the disclaimer of audit opinion (the “**Disclaimer**”) made by the auditor of the Company (“**Auditor**”) for the year under review is the fact that the Group incurred a net loss of approximately RMB119.1 million during the year under review and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB16.0 million. Despite the fact that the Directors have undertaken a number of measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced and negotiation with the lender to extend the repayment date of borrowings amounted to HK\$120 million due by 11 August 2023 have not yet been concluded as of the date of the consolidated financial statements were approved and authorised for issue by the Board. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Therefore, the Auditor was unable to form an audit opinion on the consolidated financial statements. Please refer to note 2 to the consolidated financial statements for details.

The Audit Committee has reviewed the Disclaimer for the year under review and has well noted the basis thereof. The Audit Committee has also reviewed and agreed with the Board's position as set out above.

DIRECTORS' REPORT

The management of the Company (the "**Management**") has reviewed the impact of the Disclaimer on the Group and considers that it does not have significant impact on the Group's operation subject to (i) the Group is able to obtain further equity fund raising opportunities; and (ii) finalization of negotiation with the relevant creditors for the extension of repayment dates of the existing debts. The Management expects the Disclaimer will be removed in the financial year ending 31 December 2023 given the measures to be successfully implemented.

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

AUDITOR

The financial statements for the year ended 31 December 2022 have been audited by RSM Hong Kong. KPMG resigned as auditors of the Company with effect from 7 December 2020. RSM Hong Kong was appointed as auditor of the Company with effect from 7 December 2020 to fill the casual vacancy and was re-elected as the auditor of the Company at the annual general meeting of the Company held on 24 June 2022. A resolution will be submitted to the forthcoming 2023 AGM to re-appoint RSM Hong Kong as auditor of the Company.

On behalf of the Board

Risecomm Group Holdings Limited

Yue Jingxing

Chairman and Executive Director

Hong Kong, 29 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board 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 Part 2 of Appendix 14 to the Listing Rules.

Save as the deviation from the code provision C.1.6 of the CG Code, the Company has complied with the CG Code during the year under review.

Code provision C.1.6 of the CG Code stipulates that independent non-executive directors and non-executive directors should attend annual general meetings. Two independent non-executive Directors, Mr. Ong King Keung and Mr. Zou Heqiang, did not attend the annual general meeting held on 24 June 2022, due to other business commitments. Although such independent non-executive Directors did not attend the annual general meeting, however, Ms. Lo Wan Man, an independent non-executive Director and a member of each of the audit committee, nomination committee, and remuneration committee, attended that meeting to answer questions from shareholders of the Company.

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

The Board has established the Company's purposes, values and strategy and ensured that a complementary culture has been formulated and promoted within the Group. The culture of the Group is further supplemented by the Group anti-corruption policy adopted by the Group.

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 set out in the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

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

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

CORPORATE GOVERNANCE REPORT

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 comprises of the following Directors during the year under review and up to the date of this report:

Executive Directors

Mr. Yue Jingxing (*Chairman and Member of Remuneration Committee*)

Mr. Lau Wai Leung, Alfred (*Member of Nomination Committee*)

Mr. Jiang Feng

Non-Executive Directors

Mr. Yu Lu

Mr. Ding Zhigang

Independent Non-executive Directors

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

Ms. Lo Wan Man (*Chairman of Nomination Committee and Member of Audit Committee and Remuneration Committee*)

Mr. Zou Heqiang (*Member of Audit Committee*)

The biographical information of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 14 to 18 of this annual report. None of the members of the Board is related to one another.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The roles of the chairman and Chief Executive Officer (“**CEO**”) should be served by different individuals to achieve a balance of authority and power. The main responsibility of the chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the CEO is responsible for the day- to-day management of the Company and its subsidiaries’ business, recommending strategies to the Board, and determining and implementing operational decisions. Mr. Yue Jingxing is currently the Chairman of the Company. None of the Directors act as the CEO of the Company. The Board is in the course of identifying a suitable candidate as the CEO of the Company and will make further announcement upon the appointment of the position.

Independent Non-executive Directors

Throughout the year under review and up to the date of this report, the Company has complied with 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 independent non-executive Director of their independence pursuant to the requirements of Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors), are appointed for a specific term of three years.

The Articles provides that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment.

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

Responsibilities of the Directors

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Continuous Professional Development of Directors

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

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

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

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

Directors	Type of Training (Note)
<i>Executive Directors</i>	
Mr. Yue Jingxing	A
Mr. Lau Wai Leung, Alfred	A&B
Mr. Jiang Feng	A
<i>Non-Executive Directors</i>	
Mr. Yu Lu	A
Mr. Ding Zhigang (<i>appointed on 13 January 2022</i>)	A
Mr. Sun Peng (<i>appointed on 22 April 2022 and resigned on 17 January 2023</i>)	A
<i>Independent Non-Executive Directors</i>	
Mr. Ong King Keung	A
Ms. Lo Wan Man	A&B
Mr. Zou Heqiang	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

CORPORATE GOVERNANCE REPORT

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), Ms. Lo Wan Man and Mr. Zou Heqiang.

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

The Audit Committee held two meetings to review, in respect of the year under review, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function on semi-annual basis (or on any other occasions, where appropriate) in respect of the interim and annual financial periods, engagement of non-audit services and relevant scope of work, arrangements for employees to raise concerns about possible improprieties and to recommend the appointment of new external auditor.

The Audit Committee also met the external auditor 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 Ms. Lo Wan Man, 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; and (d) to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

The Remuneration Committee held two meetings during the year under review to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

CORPORATE GOVERNANCE REPORT

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

Remuneration band (HKD)	Number of individuals
HKDnil–HKD500,000	–
HKD500,001–HKD1,000,000	4
HKD1,000,001–HKD1,500,000	–
HKD1,500,001–HKD2,000,000	–

Details of the remuneration of each Director for the year under review are set out in note 15 to the consolidated financial statements.

The Remuneration Committee also considered and made recommendations to the Board on the terms of letters of appointment and the remuneration of non- executive Directors appointed during the year under review.

Nomination Committee

The Nomination Committee consists of two independent non-executive Directors, namely Ms. Lo Wan Man (chairman), Mr. Ong King Keung and one executive Director, namely Mr. Lau Wai Leung, Alfred.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The Company has complied with the requirements under Code Provision B.3.1.

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

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

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

The Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, the implementation and effectiveness of the Board Diversity Policy, and to consider the qualifications of the retiring Directors standing for election at the annual general meeting. The Nomination Committee also considered and recommended to the Board on the appointment of non-executive Directors during the year under review.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, annually and as appropriate, to ensure its effectiveness.

For the details of the current gender ratio in the workforce, including senior management of the Group, please refer to the "Environmental, Social and Governance Report" in this report. Given the current composition of the workforce and the nature of the Group's business and industry, the Board is of the view that gender diversity is achieved and shall focus on maintaining the gender balance. The management will review the gender composition of the workforce and set targets based on the future needs of the Group's development.

Director Nomination Policy

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

CORPORATE GOVERNANCE REPORT

The Director Nomination Policy also sets out the procedures and process for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year under review, the Nomination Committee adhered to the following nomination procedures and the process set out in the Director Nomination Policy to select and recommend candidates for directorship:

(a) Appointment of new Director

- (i) Upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, the Nomination Committee should, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- (ii) If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- (iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- (iv) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

(b) Re-election of Director at General Meeting

- (i) The Nomination Committee should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.
- (ii) The Nomination Committee should also review and determine whether the retiring Director continues to meet the criteria as set out above.
- (iii) The Nomination Committee and/or the Board should then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting.

During the year under review, there were some changes in the composition of the Board. Details are set out in Directors' Report. The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

During the year under review, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

Board meetings should be held at least four times a year at approximately quarterly intervals, involving active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present.

Apart from Board meetings, the Chairman also held meetings with non-executive Directors without the presence of other Directors during the year under review.

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

Name of Director	Attendance/Number of Meetings				2022 AGM
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Mr. Yue Jingxing	3/4	N/A	2/2	N/A	1/1
Mr. Lau Wai Leung, Alfred	4/4	N/A	N/A	0/0	1/1
Mr. Jiang Feng	4/4	N/A	N/A	N/A	1/1
Mr. Cheung Fan <i>(resigned on 22 April 2022)</i>	0/2	N/A	N/A	0/1	N/A
Mr. Yu Lu	4/4	N/A	N/A	N/A	1/1
Mr. Ding Zhigang <i>(appointed on 13 January 2022)</i>	4/4	N/A	N/A	N/A	1/1
Mr. Sun Peng <i>(appointed on 22 April 2022 and resigned on 17 January 2023)</i>	1/2	N/A	N/A	N/A	1/1
Mr. Ong King Keung	4/4	2/2	2/2	1/1	0/1
Ms. Lo Wan Man	4/4	2/2	2/2	1/1	1/1
Mr. Zou Heqiang	4/4	2/2	N/A	N/A	0/1

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

CORPORATE GOVERNANCE REPORT

In reviewing the risk management and internal control systems by the Board, the Group has further engaged an external professional firm in view of facilitating the internal audit function. The professional firm is arranged to conduct internal audit on the Group every six months (who reports to the Audit Committee) with a view to facilitating adequate resources and quality 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 semi-annual reviews on the effectiveness of the Group's internal control systems. The reviews cover material controls including financial, operational and compliance controls at entity and operational levels. The Audit Committee and the Board have discussed and reviewed the relevant results of the review. The Group will continuously enhance its risk management and internal control systems according to findings therein and recommendations made to the Group.

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

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

Based on the risk management and internal control systems established and maintained by the Group, the internal audit findings, the reviews by external professional firm on internal audit of the Group, the review of the effectiveness of risk management and internal control systems performed by the management, respective Board Committees and the Board, the Board is of the view that the Group has maintained effective and adequate risk management and internal control systems during the year under review.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year under review.

The Group incurred a net loss of approximately RMB119,095,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,975,000. Its current liabilities include borrowings and lease liabilities amounting to approximately RMB122,528,000 and approximately RMB4,122,000 respectively while its cash and cash equivalents amounted to approximately RMB86,652,000 only. These events and conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The Directors have undertaken a number of measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcomes of these measures, which are subject to significant uncertainties. As of the date of approval of the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced. Negotiations with the lender to extend the repayment date of the borrowings amounted to HK\$120,000,000 due by 11 August 2023 have not yet been concluded.

Accordingly, the auditor of the Company was unable to obtain sufficient appropriate audit evidence to satisfy themselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements. Accordingly, the Auditor made disclaimer of audit opinion for the year under review. Please refer to the section headed "The Audit Committee's View and the Plan to Address the Disclaimer of Audit Opinion" in the "Directors' Report" in this report and note 2 to the consolidated financial statements for further details.

The statement of the auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 76 to 77.

CORPORATE GOVERNANCE REPORT

AUDITOR REMUNERATION

The independence of the external auditor is monitored by the Audit Committee which is primarily responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

The remuneration paid to the external auditor of the Company, RSM Hong Kong, in respect of audit and non-audit services provided to the Group during the year under review was analyzed below:

Service Category	Fees paid/ payable RMB
Audit services	1,680,000
Non-audit services	280,000
	<hr/>
	1,960,000

COMPANY SECRETARY

Mr. Lau Wai Leung, Alfred ("**Mr. Lau**"), the executive Director of the Company, has been appointed as the company secretary of the Company since 3 July 2020.

During the year under review, Mr. Lau has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

Extraordinary general meetings may be convened by Directors on requisition of one or more Shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Company Secretary of the Company by mail to 4/F., Yue Thai Commercial Building, 128 Connaught Road Central, Sheung Wan, 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.

CORPORATE GOVERNANCE REPORT

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: 4/F., Yue Thai Commercial Building, 128 Connaught Road Central, Sheung Wan, Hong Kong
(For the attention of the Company Secretary)

Email: ir@risecomm.com.hk

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the 2022 AGM held on 24 June 2022, Directors (or their delegates as appropriate) were available to meet Shareholders and answer their enquiries.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has not made any changes to its memorandum and articles of association. A copy of the Company's memorandum and articles of association is available on the website of the Company at www.risecomm.com.cn and the website of the Stock Exchange at www.hkex.com.hk.

As disclosed in the announcement of the Company dated 20 April 2023, on 1 January 2022, the Listing Rules were amended by, among others, adopting a uniform set of 14 core shareholder protection standards regardless of their place of incorporation as set out in Appendix 3 to the Listing Rules. The Board proposes to adopt the second amended and restated memorandum of association and articles of association (the "**New M&A**") which incorporates the proposed amendments (the "**Proposed Amendments**") for the purpose of, among others, (i) bringing the existing memorandum of association and articles of association (the "**Existing M&A**") in line with amendments made to the Listing Rules and the applicable laws and procedures in the Cayman Islands; and (ii) making certain minor housekeeping amendments to the Existing M&A. The Board has proposed to put forward to the Shareholders at the forthcoming annual general meeting of the Company a special resolution to approve the Proposed Amendments and to adopt the New M&A in the form to be tabled at the forthcoming annual general meeting of the Company in substitution for and to the exclusion of the existing M&A.

Policies relating to Shareholders

The Company has in place a Shareholders' Communication Policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. Details are set out in Directors' Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Group is pleased to present the Environmental, Social and Governance Report (the “**Report**”). The purpose of the Report is to disclose to investors and other stakeholders the Group’s strategies, policies and performance in the areas such as environmental protection, corporate management, talent training, supply chain management, social responsibility, social welfare undertakings in 2022.

REPORTING PERIOD AND SCOPE

Information contained in this Report covers the period from 1 January 2022 to 31 December 2022, which is consistent with the financial year covered by the Group’s Annual Report 2022. Its main business operation areas include its headquarters in Nanshan, Shenzhen, the PRC, and its offices in Beijing, Wuxi, Hunan and Hong Kong, China.

The Report is prepared in both Chinese and English versions. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

BASIS OF PREPARATION

This Report is prepared in accordance with Appendix 27 of the Listing Rules — “Environmental, Social and Governance Reporting Guide” (the “**ESG Reporting Guide**”) based on the principles of materiality, quantitative, balance and consistency, and has complied with the “comply or explain” provisions as set out in the Listing Rules. The data disclosed in this Report are from the Company’s official documents and statistical report.

REPORTING PRINCIPLES

The reporting principles of Materiality, Quantitative, and Consistency have been adopted as a basis for the preparation of the Environmental, Social and Governance (“**ESG**”) Report.

Materiality:

The Group has implemented a materiality assessment based on the effective engagement with its various stakeholders through different channels. The standardised assessment showed that ESG issues such as emission reduction, energy saving, and health and safety are highly important to the Group in its ESG management. Through this process, the Group pays particular attention to these issues to meet the expectations of stakeholders.

Quantitative:

Quantitative reporting was primarily reflected under the environmental disclosure of greenhouse gas (GHG) emissions, treatment of exhaust gases, and in the section titled “Use of Resources” in this Report in terms of KPIs. The Group has applied this principle in reporting the Group’s employment structure by age, gender, geographical area, and employee category in accordance with the social aspect of employment.

Consistency:

The Group has adopted a consistent methodology and reporting framework to allow for meaningful comparisons over years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING BOUNDARY

The Report covers major operations and the administrative offices of the Group in Mainland China and Hong Kong. Its main business operation areas include its headquarters in Nanshan, Shenzhen, the PRC, and the offices in Beijing, Wuxi, Hunan, and Hong Kong, China. The Group believes this clear boundary can provide sufficient and relevant scope for the Report from the perspective of materiality.

OBJECTIVE OF THE REPORT

The Group believes that the integration of ESG considerations into the Group's business operation has become an integral part of the Group's corporate development strategy. Meanwhile, it also focuses on fostering closer connection with its stakeholders, listening to their voices, working openly with partners to overcome challenges, caring for and growing with employees, and taking on more social responsibilities, in order to seek continuous improvement.

HOW TO OBTAIN THE REPORT

The Report is part of the Group's annual report and is available on the Group's website. For more information about the Group, please visit <http://www.risecomm.com.cn>.

CONTACT METHOD

The Group attaches great importance to the valuable opinions of stakeholders and welcomes suggestions on the Report or on the Group's overall performance on sustainable development, please contact us by email at ir@risecomm.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE GROUP

The Group, is a high and new technology enterprise (“**HNTE**”) which engages in scientific research, product development and the provision of technical services. The Group’s headquarter is situated in Shenzhen, the PRC, with offices in Beijing, Wuxi, Hunan and Hong Kong, the PRC. The Group’s production, R&D and sales businesses are mainly carried out by its various subsidiaries, namely Risecomm WFOE, Risecomm Beijing Comm, Risecomm Wuxi, Beijing Jiangxinchuangda Technology Co., Ltd. and Beijing Hongten Weitong Technology Co., Ltd.. As a high technology enterprise driven by R&D, Risecomm WFOE is honoured as a National HNTE, Shenzhen HNTE and National Integrated Circuit Design Enterprise.

Based on smart manufacturing, the Group uses the power line chip design as the source, and form the strategic layout of smart grid and smart energy management applications in parallel. With its advanced R&D strength and ample industry experience, the Group provides two major businesses to the market. Firstly, through Power Line Communication (“**PLC**”) technology, the Group provides: (i) Automatic Meter Reading (“**AMR**”) and other business including provision of design, development and sale of PLC-products, energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, and providing maintenance services in connection with the development and upgrading of AMR systems by power grid companies in the PRC; and (ii) Smart Manufacturing In Automotive (“**SMIA**”) business including sales of software license, production safety products, construction contracts as well as the provision of software post-contract customer support services in connection with the smart manufacturing and industrial automation system applied in the petroleum and petrochemical industries.

There are major changes in energy management and control and energy usage pattern in the PRC and even the world which presents huge social responsibility and development opportunities for energy conservation and emission reduction. The Group has stayed true to its original aspiration to actively fulfill its corporate social responsibility while achieving leapfrog development and sustained innovation, takes into account the various factors of sustainable development in the formulation and management of enterprise strategies and strives for a full understanding of the social and environmental impacts of measures and decisions before their implementation.

GOVERNANCE STRUCTURE

Board Statement

Environmental issues are of growing concern. In fact, climate change will be the most important challenge over the next decade. The Board is fully obliged to do its part to help. The Board has ultimate and overall responsibility for the Group’s ESG strategy and reporting. The Board continues to steer the Group towards environmentally and socially responsible business through its governance structure and the maintenance of oversight over material ESG issues.

The governance structure has an ESG working group, comprised of professionals from various departments and led by a designated executive director, to collect and analyse data from operation level and market data; identify, prioritise and manage material ESG-related issues; and implement the relevant ESG policies in the Group. The designated executive director reports on material ESG matters to the Board for review and formulation of strategy through the merging of top-down approach and bottom-up approach.

The Board reviews the sustainability performance against ESG-related goals and targets which relate to its business annually to monitor and inform the Group’s actions so as to reduce carbon footprint of the Group significantly within the next five years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS ENGAGEMENT

In addition to tireless efforts taken in business operation in providing returns for shareholders and protecting investors' interests, the Group has maintained effective communication with relevant stakeholders through various channels and paid particular attention to their feedbacks, in order to get a better understanding of their expectation and areas of concerns, which allows the Group to make appropriate improvement and implementation so as to further improve sustainable development strategy and reinforce the Group's contribution to society.

Stakeholders	Engagement Channels	Expectations
Government and Regulatory Authorities	<ul style="list-style-type: none"> — On-site inspection and checking — Research through work conferences, work reports preparation and approval submission — Information release on HKExnews and company's website, such as annual reports, interim reports and announcements 	<ul style="list-style-type: none"> — Compliance with laws and regulations — Making tax payment, conducting operation in accordance with laws, under government supervision and evaluation — Participating in the formulation of industry standards — Promoting economic development and employment
Shareholders and Investors	<ul style="list-style-type: none"> — Annual general meeting and other shareholder meetings — Information release on HKExnews and company's website, such as annual reports, interim reports and announcements — Meeting with investors and analysts 	<ul style="list-style-type: none"> — Return on investment — Information disclosure and transparency — Protection of interests and fair treatment of shareholders
Employees	<ul style="list-style-type: none"> — Meetings — Trainings, seminars and briefing sessions — Cultural and sports activities — Intranet and emails 	<ul style="list-style-type: none"> — Protection of rights and interests of employees — Comfortable working environment — Career development opportunities and self-realization — Occupational health and safety
Customers	<ul style="list-style-type: none"> — Websites and brochures — Emails and customer service hotlines — Feedback forms — Regular meetings — Industry exhibitions 	<ul style="list-style-type: none"> — Safe and high-quality products — Stable cooperation — Information transparency — Integrity — Business ethics
Suppliers and Business Partners	<ul style="list-style-type: none"> — Regular meetings, supplier conferences, phone calls and interviews — Review and assessment 	<ul style="list-style-type: none"> — Long-term partnership — Honest cooperation, fairness and openness — Information resources sharing — Quality of supply — Reduction of business risks
Peer and Industry Associations	<ul style="list-style-type: none"> — Industry conferences and meetings — Site visits and field trips 	<ul style="list-style-type: none"> — Experience sharing — Fair competition — Cooperation
Society and the Public	<ul style="list-style-type: none"> — Volunteering activities — Charity and social investment 	<ul style="list-style-type: none"> — Community participation — Social responsibilities — Provision of career opportunities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

On the basis of previous year's stakeholder survey, the Group conducted several communications with various stakeholder representatives in 2022, including group discussions, telephone interviews and so on, in order to understand the stakeholders' concerns and expectations. The Group believes that the annual stakeholder communication is to help enterprises identify priorities and important work contents in areas where improvement is needed. It also expects to understand what the Group needs to improve from the results of each communication, and give a more targeted response in the Report in order to continuously improve the Group's reputation.

The following table is a summary of the Group's material ESG issues contained in this Report:

ESG Reporting Guide	Material ESG Issues	Materiality to the Group		
		Low	Medium	High
A. Environmental				
A1. Emissions	Harmful Exhaust Gas and Greenhouse Gas ("GHG") Emissions	✓		
	Sewage Reduction	✓		
	Hazardous and Non-hazardous Waste	✓		
A2. Use of Resources	Energy Saving			✓
	Water Saving			✓
	Environmentally Friendly Packaging Materials		✓	
A3. The Environment and Natural Resources	Assist Customers in Energy Saving and Emission Reduction			✓
	Creating a Green Office Environment			✓
	Supplier with Environmental Protection Concepts			✓
				✓
B. Social				
B1. Employment	Protection of Employees Rights and Interests			✓
	Benefits and Rewards			✓
	Advocating Work-life Balance			✓
B2. Health and Safety	Safe Production			✓
	Occupational Health Training			✓
B3. Development and Training	Training Management			✓
B4. Labour Standards	Prevention of Child or Forced Labour	✓		
B5. Supply Chain Management	Supply Chain Management			✓
	Transparent Procurement		✓	
B6. Product Responsibility	Quality Control			✓
	Green Products			✓
	Intellectual Property Rights		✓	
	Privacy Protection			✓
B7. Anti-corruption	Anti-corruption			✓
B8. Community Investment	Community Investment			✓

The Group is a fabless R&D oriented PLC technology company specialized in the design, development and sale of proprietary PLC-related SOC IC, modules, devices and solutions. The Group adopts fabless production model, under which, instead of in-house manufacturing IC chipsets, it sources IC chipsets, as its main raw materials, from IC chipsets suppliers which provide ASICs based on its proprietary design it developed. Unlike general manufacturing enterprises, the Group assembles its products with the adoption of fabless production model, which greatly reduces the negative impacts on the environment during the course of operation and production.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

With the development of the world industrial revolution and the rapid development of economy and technology, human society has begun to enter a new era, but at the same time, our environment has suffered unprecedented damage. In the 21st century, environmental problems have become a severe challenge for the world. Therefore, the Group has always regarded environmental protection as a prerequisite for the steady development of enterprises, so it shoulders the important mission of “sustainable development” and strives to ensure the ultimate goal of legitimate and compliance operation. The Group respects and conserves nature, strictly complies with national laws, regulations and standards, takes the initiative to consider the impact of decision-making and activities on the environment as a whole, and strives to achieve a harmonious coexistence with the environment.

For the year ended 31 December 2022, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group, including but not limited to “Environmental Protection Law of the People’s Republic of China” (中華人民共和國環境保護法), “Water Pollution Prevention Law of the People’s Republic of China” (中華人民共和國水污染防治法), “Atmospheric Pollution Prevention and Control Law of the People’s Republic of China” (中華人民共和國大氣污染防治法), “Law of the People’s Republic of China on Prevention and Control of Pollution From Environmental Noise” (中華人民共和國環境噪聲污染防治法) and “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste” (中華人民共和國固體廢物污染環境防治法).

Emissions

The Group has obtained the ISO14001 environmental management system certification, which indicates that its operation and management of R&D, production and sales have achieved internationally recognised standards. The Group has also formulated the Waste Management Policy to establish regulations and guidance on waste disposal and manage and monitor the effectiveness of targeted measures for different kinds of waste. Moreover, it acts in accordance with the “Control Procedures for Monitoring and Measurement of Environment, Occupational Health and Safety”, and regularly engages inspection bodies to conduct accurate monitoring of emissions and provide monitoring reports, so as to keep abreast of the Group’s performance in environmental protection and formulate measures for improvement.

For the year ended 31 December 2022, the Group did not receive any notice or warning on 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 and regulations in the PRC.

GHG emissions

The Group’s production activities mainly use electricity to maintain machine operation, general lighting and indoor temperature control etc. As such, the main source of its carbon emission is GHG generated from electricity consumption. Meanwhile, its products are energy-saving and environmentally-friendly. The Group has installed its self-developed air conditioner controllers and energy-saving control switches in all office areas and plants. Such on-site application allows backstage control of the usage of lighting and air-conditioners and thus effectively saves electricity resources. The Group has promoted this series of energy-saving products to its customers and have achieved the desired energy-saving effect.

The Group’s direct GHG emissions (Scope 1) source from fuel consumption by the Group’s vehicles which are mainly used in the provision of AMR maintenance services. During the year under review, the Group disposed two vehicles, as the market demand for the Group’s AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology. Therefore, the vehicle utilization rate has dropped as compared to 2021, resulting in the decrease in direct GHG emissions (Scope 1) by approximately 30% from 52.60 tCO₂e in 2021 to 36.84 tCO₂e in 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's indirect GHG emissions (Scope 2) source from purchased electricity in association with power consumption for the Group's operation. During the year under review, mainly due to the increase in research and development activities and business volume, the Group recorded an increased consumption of purchased electricity as compared to 2021, resulting in the increase in indirect GHG emissions (Scope 2) by approximately 27% from 102.38 tCO₂e in 2021 to 130.17 tCO₂e in 2022.

As a result, the Group's total GHG emissions have increased by approximately 8% from about 154.98 tCO₂e in 2021 to approximately 167.01 tCO₂e in 2022.

GHG Emissions Indicator ¹	Unit	2022	2021
Direct GHG emissions (Scope 1) ²	tCO ₂ e	36.84	52.60
Indirect GHG emissions (Scope 2) ²	tCO ₂ e	130.17	102.38
Total GHG emissions (Scope 1 and 2) ²	tCO ₂ e	167.01	154.98
Intensity ³	tCO ₂ e/turnover (RMB'000)	0.0011	0.0006

Notes:

1. GHG emission data are presented in terms of carbon dioxide equivalent, with reference to, including but not limited to, the reporting requirements of "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, latest released emission factors of China's regional power grid basis, the emission factor released by the Hong Kong Electric Investments in 2021 and "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014.
2. Scope 1: Direct GHG emissions from vehicles owned by the Group.
Scope 2: Indirect GHG emissions from the generation of purchased electricity consumed by the Group.
3. For the year ended 31 December 2022, the Group's turnover was approximately RMB149,851,000

Treatment of exhaust gases

The Group's main air pollutant are vehicle exhaust gases emission and welding fumes produced in welding work stations.

Immaterial amount of fumes is produced during welding and will be discharged into high-altitude air after being collected and filtered according to the requirements from the environmental protection authority in the PRC. Discharging pipes are installed above each welding work station of production lines in the assembly hub in Hunan. Welding gas will be sucked into the pipes and discharged into high-altitude air after being filtered and purified. The Group has established a routine maintenance system. Discharging pipes in the factories are regularly cleaned.

As the market demand for the Group's AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology, the Group disposed two vehicles. Therefore, the vehicle utilization rate has dropped as compared to 2021, resulting in the decrease in emission of exhaust gases. For the year ended 31 December 2022, the Group's vehicle exhaust gases emission was as follows:

Types of Emission	Unit	2022	2021
Sulphur oxides	Tonnes	0.0002	0.0003
Nitrogen oxides	Tonnes	0.0106	0.0122
Particulate Matters	Tonnes	0.0008	0.0009

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sewage reduction

The Group does not generate industrial sewage as water is not required in its production process. Sewage generated by the Group is mainly domestic sewage, which will be discharged to municipal sewage system after primary treatment in regional septic tank, and then undergone advanced treatment in regional sewage treatment plant. The Group has also renovated its water-saving tanks installed in washrooms and carried out other measures to reduce domestic sewage discharge. For the year ended 31 December 2022, the performance of sewage reduction was as follows:

Types of Sewage	Unit	2022	2021
Domestic sewage	Cubic meters	1,070.46	1,226.03
Intensity	Cubic meters/turnover (RMB'000)	0.007	0.005

The overall domestic sewage reduction of the Group decreased by approximately 13% from approximately 1,226.03 cubic meters in 2021 to approximately 1,070.46 cubic meters in 2022. This is mainly due to the fact that the number of working days of the Group's employees in 2022 is severely limited by the highly stringent control measures for the COVID-19 pandemic (the "Pandemic") in the PRC.

Hazardous and non-hazardous wastes

Production Department

The Group strictly complies with the national regulations governing the management of electronic waste equipment, promotes the recycling and reuse of waste products, and reduces the rate of waste disposal. The solid wastes are mainly lead-free tin slag, metal and plastic waste, waste packaging materials and other recyclable wastes produced during the production process, as well as office waste generated during operation process, fluorescent lights and disposed batteries, a small amount of defective devices and semi-finished scrapped devices. The Group's general waste is contracted to professional recyclers for centralized recycling. Hazardous wastes are handed over to departments qualified for hazardous wastes disposal and registered with the Environmental Protection Bureau. Due to the Group's business nature, the Group does not have any hazardous waste electronics and generate any significant hazardous waste discharge in the daily operations.

The Group has a strict classification system for different types of wastes. Wastes are stored, handled and recorded separately. Waste bins are set up according to the type of wastes and are placed in appropriate areas. Wastes generated by each department are classified and thrown into designated waste bins according to the "Waste Management Requirements", and engaged qualified recyclers for disposal. The Group has also put much efforts on recycling and reusing general or valuable components and parts (such as universal chip on printed circuit board) to reduce the impacts on nature.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Office Areas

Recyclable wastes are recycled, while hazardous wastes (e.g. end-of-life fluorescent lights and batteries) are collected in specific site, which will then be handed over to outsourced parties with appropriate qualification for disposal after reaching a certain amount.

The Group promotes the use of various electronic mobile office software to reduce paper usage. Electronic mobile system such as the R&D projects “Product Life Cycle Management” and “Enterprise Resource Planning” were used for approval procedure, which further expanded the paperless network and the coverage of mobile office. Paperless systems were established for internal communications such as employee learning and development. As a result, the amount of paper used in the office has been reduced and the results are satisfactory. In addition, declaration and approval process is performed on the OA system. Most of the internal approval processes have become paperless, which will control the amount of paper used in the office in 2022. For the year ended 31 December 2022, the Group’s non-hazardous waste discharge performance is summarized as follows:

Types of Wastes	Unit	2022	2021
Total amount of non-hazardous wastes	Tonnes	0.25	0.20
Intensity	Tonnes/turnover (RMB'000)	0.000002	0.000001

Use of Resources

Energy saving

The Group acknowledges that every enterprise should work towards the trend of low-carbon operation. The Group has been committed to environmental protection and invested substantial capital and human resources in environmental protection, striving to provide smart energy saving and emission reduction management solutions for the global market with PLC technology, and application of which includes streetlight control, building energy management and photovoltaic power management. Meanwhile, it has always been devoting our efforts to efficient use of energy in order to strike a balance between corporate development and environmental protection.

During the year under review, as the market demand for the Group’s AMR maintenance services which is performed and based on narrowband products decreased following the transition of market demand from narrowband to broadband technology, the Group disposed two vehicles. Therefore, the vehicle utilization rate has dropped as compared to 2021, resulting in the decrease in petrol usage. Purchased electricity mainly represents power consumption by the Group for its operations. During the year under review, mainly due to the increase in research and development activities and business volume, the Group recorded an increased consumption of purchased electricity as compared to 2021. Based on the above, the overall energy consumption decreased by approximately 5% from approximately 381,342.50 kWh in 2021 to approximately 363,269.24 kWh in 2022. The Group’s energy consumption for the year ended 31 December 2022 is as follows:

Types of Energy	Unit	2022	2021
Petrol ⁴	kWh	151,271.24	215,982.28
Purchased electricity	kWh	211,998.00	165,360.22
Total	kWh	363,269.24	381,342.50
Intensity	kWh/turnover (RMB'000)	2.42	1.54

Note:

4. Actual petrol consumption in 2022 and 2021 is approximately 15,608.88 liters and approximately 22,286.07 liters.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy efficiency

The Group adopts its self-developed building energy management system to centralize the management of its internal air conditioners in a planned manner and remotely control the temperature and switching time of the working environment, which effectively reduces wear and tear and extend the service life of air conditioners. In 2022, these enhancement projects have allowed it to efficiently reduce energy usage of air conditioning system as well as the entire floors and cut down carbon dioxide emissions of the Group.

Water saving

As always, internal energy-saving education to its employees is continuously carried out to develop the awareness of conservation. For example, once the water pipeline leakage was discovered, timely reporting and repairing would be carried out. Visual energy-saving slogans for water-saving, energy-saving and paper-saving are posted in the area of office, pantry and toilet to raise environmental awareness of employees. The Group did not face any issues in sourcing water fit for its purposes in 2022.

The Group has been strived to promote environmental protection and raise employees' awareness of environmental protection, with reasons mentioned in the "Sewage reduction" section. During the year under review, the number of working days of the Group's employees is severely limited by the highly stringent control measures for the COVID-19 pandemic (the "Pandemic") in the PRC. Therefore, overall water consumption has been decreased by approximately 13% from approximately 1,226.03 cubic meters in 2021 to approximately 1,070.46 cubic meters in 2022.

Water Consumption	Unit	2022	2021
Water consumption	Cubic meters	1,070.46	1,226.03
Intensity	Cubic meters/turnover (RMB'000)	0.007	0.005

Environmentally friendly packaging materials

The Group has reduced the use of materials and prioritized recyclable and reusable materials without impairing the packaging quality. Also, the Group has increased the reuse rate of packaging materials, which greatly reduced the actual usage of packaging materials. For example, the Product Assembly Hub in Hunan adopted reusable plastic materials in production cycle and temporary storage packaging, which significantly reduced the wastage on packaging cartons. Furthermore, in terms of product design, plastics have been replaced by recyclable aluminium alloy for certain products in order to reduce the damages to the environment.

During the year under review, the number of products sold increased in 2022 as compared to 2021 due to the increase in the number of sales orders in the Group's AMR and other business segments. As a result, the usage of PE plastic bag increased. The types of packaging materials used by the Group during the year under review are as follows:

Types of Packaging Material	Unit	2022	2021
PE plastic bag	Tonnes	0.005	0.004
Pearl cotton	Tonnes	0.04	0.04

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environment and Natural Resources

Assisting customers in energy conservation and emission reduction

The Group continues to save energy, improve energy efficiency and reduce the pressure of energy use on the environment. Through its self-developed PLC technology and in-depth integration with the new generation of information technology such as the Internet of Things, big data and cloud computing, the Group strives to provide users with integrated energy management solutions and equipment and develops the Internet of Things for energy, with a view to facilitate energy conservation and emission reduction, while providing a safe, comfortable and efficient working environment. Many of its customers have started to adopt the Risecomm Building Energy Management Equipment extensively in workshops, dormitories, offices, and indoor work and study space in schools. Compared with that before the installation of the system, the energy saving effect is significant.

Creating a green workplace

In 2022, the Group, according to its pre-determined schedule, implemented the concept of green environmental protection in the operation of office areas, focusing on improving the office environment, which aims at reducing the emissions of its own office operations and improving the efficiency of the use of resources and energy. In terms of emission reduction awareness, as in the previous year, the Group has continued to organise "Walking for health" activities to encourage employees to embrace low carbon footprint travel. There is no significant waste of natural resources in the Group's business. It also introduces energy-saving equipment in its office, such as multi-functional photocopiers (with printing, scanning and fax functions) that meet efficiency standards to promote green office and reduce energy consumption.

Supplier with environmental protection concepts

In 2022, the Group uses established principles to select suppliers and gives priority to printing materials with green concepts. Using recycling paper to print companies' leaflets, albums, greeting cards, etc., and also work with printers and advertising companies with environmental protection concepts. In order to implement the environmental awareness and social responsibility requirements to all suppliers as a whole in terms of supply of production materials, the Group has formulated the relevant system, "Procurement Management Process", and also gives priority to suppliers who comply with national environmental standards and environmentally conscious suppliers when selecting suppliers.

The nature of the Group's business is itself concerned with limiting the harmful effects on the environment that energy use can have, as demonstrated by the Risecomm Building Energy Management Equipment which has been widely used. Therefore, the impact of the Group's activities on the environment and natural resources are limited and mainly includes only the use of vehicles producing exhaust gases emissions and the consumption of electricity and office paper.

For the actions taken to manage them, please refer to the subsection titled "Creating a green workplace" within the section "The Environment and Natural Resources".

Environmental-related targets, such as emissions targets, hazardous and non-hazardous waste reduction targets, energy use efficiency targets, and water efficiency targets, are still to be reviewed by the Group which will disclose such targets in due course.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Climate Change

Climate change affects people and businesses globally and the Group cannot ignore the impacts thereof. The Group has identified the following significant climate-related issues and has formulated action policies to limit the effects of climate change as far as possible.

Significant climate-related issues which have impacted and those which may impact the issuer

Actions taken to manage the identified risks

Physical risks:

Acute risks

i) Typhoon

Some places such as Hong Kong are affected by typhoons almost every year. For example, there were over 60,000 reports of trees collapsing and at least 500 reports of damage to windows or glass curtain wall throughout Hong Kong during the Typhoon Mangkhut. More than 40,000 households in Hong Kong had their electricity supply disrupted, causing traffic chaos.

The Group will closely monitor weather forecasts and warnings issued by authorities in various places such as the Hong Kong Observatory, the Emergency Bureau and the Meteorological Bureau of Shenzhen and Beijing, and will allow staff to go to work or leave earlier or suspend their work at appropriate times to ensure their safety.

The Group will take precautionary measures before the typhoon hits, including closing windows tightly, pulling down curtains, etc. and locking up important documents to minimise those being blown away during the typhoon.

ii) Flood

Extreme weather conditions such as heavy rainfall may cause flooding and hence damage to the Group's property.

Emergency lights are installed at all exits of the Group.

The Group will regularly check the drainage inlets to prevent blockage and reduce the damage to the Group's property caused by flooding.

Chronic risks

The rising trend in average global temperatures shows that there are more warming areas than cooling areas. Long-term risks such as prolonged heat waves may affect the occupational safety and health of employees.

The Group will pay attention to weather forecasts and warnings issued by the Hong Kong Observatory and the Meteorological Bureau of Shenzhen and Beijing, etc., adjust work arrangements and provide heat protection materials and information on occupational safety and health to our staffs.

The extent of global warming in the future will depend on the amount of carbon dioxide and other greenhouse gases emitted in the coming decades. Our goal is to reduce carbon emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Significant climate-related issues which have impacted and those which may impact the issuer

Actions taken to manage the identified risks

Transition risks:

i) Policy risks

With the introduction of a series of policies such as China's Policies and Actions on Climate Change (《中國應對氣候變化的政策與行動》), "Opinions on Deepening the Battle of Pollution Prevention and Control"(《關於深入打好污染防治攻堅戰的意見》) and "Guiding Opinions on Deepening the Legal Administration in the Field of Ecology and Environment and Continuously Strengthening the Governance of Pollution in accordance with the Law"(《關於深化生態環境領域依法行政持續強化依法治污的指導意見》), which triggered the increase in the supply of raw materials and energy prices, it may create the risk of cost increase to the production and operation activities of the Group.

The Group continuously pays attention to the relevant policy requirements of government departments on energy conservation and emission reduction as well as the trend of policy development. The Group has a sound financial management system and is able to control various budgets and cost expenditures effectively. The Group has also formulated corresponding energy saving and emission reduction measures to reduce the consumption of raw materials, energy and water, etc., and to minimise the harm and risk to the environment in its production. Therefore, the impact of policy risk on the Group is not significant and the risk is manageable.

ii) Legal risks

National laws and regulations on environmental protection are becoming increasingly sophisticated and local governments in the region where the Group is located have increased their efforts in environmental protection supervision. However, the Group mainly engages in technology research and development activities and its production activities only involve simple assembly and testing, so the impact of its research and development and production activities on the environment is relatively low and the chance of occurrence of this risk is low.

The Group regularly collects and updates the environmental, occupational health and safety laws and regulations applicable to the Group each year and disseminates them throughout the Group, requiring compliance with relevant environmental, occupational health and safety laws and regulations in its technology development activities and production processes, and conducts annual assessments of the Group's operating activities in compliance with relevant laws and regulations to ensure that the Group's operating activities comply with the relevant laws and regulations.

The impact of this risk on the Group is low and the risk is manageable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Significant climate-related issues which have impacted and those which may impact the issuer

Actions taken to manage the identified risks

iii) Technology risks

The Group is in the power line communications industry and is exposed to technological risks mainly because power line communications technology is widely used for data transmission, with increasing amounts of data transmission information and increasing requirements for communication speed. Meanwhile, the Group's products are exposed to product compatibility risk due to differences in application, distribution network structure and power line channel characteristics in different regions.

The Group adopted dual-mode communication technology to make up for the shortcomings of pure power line communications technology, which does not have an advantage in terms of communication rate. We effectively improved the communication rate of the products, so that the communication success rate and communication rate of the Company's products are among the best in the industry.

The Group's products are developed in accordance with the requirements set out in the "Technical Specification for Interconnection of Low Voltage Power Line Broadband Power Line Communications (《低壓電力線寬帶載波通信互聯互通技術規範》)", and the Group also actively participates in the interconnection tests of various meter plants in various provinces to effectively improve product compatibility.

The Group's products are environmental-friendly products. The technical research and development department intentionally gives priority to environmental materials in the material selection stage of product development in order to reduce excessive greenhouse gas emissions from its products to the environment, while the Group actively promotes the adoption of new materials and processes by its suppliers to produce environmental materials and share its social and environmental responsibility.

The products developed and manufactured by the Group are environmental-friendly and energy efficient, designed to save energy and reduce carbon emissions for its customers (and end users), so the probability of this risk is low.

iv) Market risks

The Group is exposed to market risk mainly due to changes in industry demand and shifts in customer demand for its products.

The Group pays close attention to changes in market demand, requirements of the domestic environment and customer demand, adjusts the Company's strategic objectives and product direction in a timely manner, puts forward environmental protection and safety requirements at the product decision stage, promotes the adoption of new processes and materials by suppliers for environmental-friendly production, and strives to provide green, environmental-friendly and safe products that meet national environmental and energy saving requirements and market demand.

The impact of this risk on the Group is low.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Significant climate-related issues which have impacted and those which may impact the issuer

Actions taken to manage the identified risks

v) Reputational risks

Climate change is a global issue and stakeholders are increasingly concerned about the environmental performance of companies. If the Group caused disruption to the climate, it will have difficulty attracting and retaining customers, employees, business partners and investors. This could have an impact on the Group's sales, financing and image.

The Group aims to reduce carbon emissions by, for example, reducing the use of cars and planes by more frequent use of alternate ways of communication such as online meeting software where possible.

Some office buildings use environmental air-conditioning, with the temperature set at no less than approximately 26°C, energy-saving lamps, carry out regular inspection and maintenance of all equipment affecting energy efficiency, and implement energy saving and consumption reduction policies in the Group, urging all personnel to save energy, water and electricity as required, and separate waste collection and disposal properly.

The Group has obtained ISO14001 (environmental management system) and ISO45001 (occupational health and safety management system) certification in response to the relevant policy requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL RESPONSIBILITY

The Group takes initiative to fulfil its social responsibility in corporate development, insists on sustainable development, humanistic care and environmental protection and applied the concept of social responsibility consistently throughout the entire supply chain, and has created an efficient supply chain platform for mutual benefit and better carried forward corporate social responsibility on this basis. For the year ended 31 December 2022, the Group has established, continuously operated and updated, a strong social responsibility management system through the following initiatives.

Employment and Labour Practices

Employment

The Group puts the core values of “people-oriented” and “investing in people” into practice and emphasizes to have “mutual commitment” with its employees, incorporating the pursuit of individual employee into long term corporate development. Through sharing the growth with its employees, the Group develops its business together with the staff.

Analysis of human resources

As at 31 December 2022, the Group and its subsidiaries had total of 151 employees, 94 of whom were male and 57 were female, representing 62% and 38% of the total number of employees respectively. Among all employees, 8 employees held doctorate and postgraduate degree, 69 employees held university degree and 74 employees were below degree level, representing 5%, 46% and 49% of the total number of employees respectively.

Breakdowns of the employees by gender, age group, geographical area and employee category as at 31 December 2022 are set out below:

Type of Employees	2022		2021	
	Number of employees	Approximate percentage of the total number	Number of employees	Approximate percentage of the total number
Total ⁵	151	100	163	100
By gender				
Male	94	62	108	66
Female	57	38	55	34
By age group				
Aged 30 or below	28	19	32	20
Aged 31-40	65	43	70	43
Aged 41-50	34	22	35	21
Aged 51 or above	24	16	26	16
By geographical area				
China	147	97	159	98
Hong Kong	4	3	4	2
By employee category				
General	94	62	101	62
Middle Management	42	28	46	28
Senior Management	15	10	16	10

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Type of Employees	2022		2021	
	Number of employees who left	Turnover rate	Number of employees who left	Turnover rate
Total	46	30%	38	23%
By gender				
Male	24	26%	27	25%
Female	22	39%	11	20%
By age group				
Aged 30 or below	21	75%	12	38%
Aged 31-40	16	25%	14	20%
Aged 41-50	5	15%	9	26%
Aged 51 or above	4	17%	3	12%
By geographical area				
China	46	31%	36	23%
Hong Kong	-	-%	2	50%

Note:

5 Except a part-time staff, all employees work in full-time base.

Protection of employees' right

Employees are the foundation of corporate development. The Group has been actively protecting the basic rights of employees. In terms of employment, the Company has strictly complied with "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Law of the People's Republic of China on the Protection of Rights and Interests of Women" (中華人民共和國婦女權益保護法) and other relevant requirements of the places where its overseas companies operate. The Group has also developed a human resources management system, with the Human Resources Control Procedures being established in a scientific and reasonable manner and applied in the areas of recruitment, promotion, remuneration, benefit, assessment, training, employee relations and communication etc. of the Company, so as to ensure the fairness of employment conditions, without discrimination in age, gender, place of origin, ethnicity, customs, religion, social hierarchy, physical disability, political affiliation and so on. Child labour and forced labour are explicitly forbidden.

Benefits and remuneration

The Group provides competitive remuneration and benefit for all employees and contributes to various kinds of social insurance in accordance with local policies, such as pension, medical care, work-related injuries, maternity, unemployment insurance and housing provident funds. In order to attract, retain and motivate employees, the Company conducts comprehensive assessment of employees according to annual performance appraisal. Key performance indicators of employees will be recorded through the system, and the management department will evaluate employees' performance based on the completion time and quality of work as well as their contribution to the Company. Performance assessment results are divided into 5 levels, and are in line with annual performance pay, bonuses, and promotions, thereby generating employees' enthusiasm for working.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Encouraging work-life balance

As always, the Group attaches great importance to occupational health of each employee and strictly abides by national policies on holidays and working hours, encourages employees to balance work and life, and ensures that employees enjoy benefits such as sick leave, marriage leave, maternity leave and annual leave. It advocates entrepreneurial spirit in the Company, encourages the team to share their successful experience and happiness in office, and has established an “internal trainer” incentive scheme to encourage technological innovation and experience sharing. In addition, the Group has organized various types of entertainment and leisure activities for employees and established recreation and sports groups such as basketball club, badminton club, table tennis club and reading club, so as to enrich employees’ leisure time. Team activities and social activities are regularly organised as well, allowing employees to enjoy their lives in a stressful working atmosphere.

Caring for employees’ families

The Group cares about its employees not only in daily operation, but also the family of each employee. The Group presents gifts to employees on their birthday, wedding, death of relatives as well as traditional festivals. The “Family Day Trip” and “Family Visit Day” have been the Group’s events for showing care to its employees.

For the year ended 31 December 2022, the Group actively complied with requirements in “Labour Law of the People’s Republic of China” (中華人民共和國勞動法), “Labour Contract Law of the People’s Republic of China” (中華人民共和國勞動合同法) and other laws and regulations, and no major violation matters against human resources laws and regulations have been found.

Female employees’ rights

With respect to the protection of female employees’ rights, the Group also complies with the relevant state laws and regulations to provide its female employees in all branch offices around the country with a maternity leave of at least 98 days and maternity allowances. In the meantime, the Group also provides pregnant or breastfeeding female employees with suitable work positions, breaks and pregnancy-friendly facilities. Pregnant employees are entitled to paid maternity leave and lactating mothers are allowed to have 1 hour breast feeding leave per day. These initiatives allow them to continue to develop their career and professional skills at any time regardless of their physical conditions or family status.

Equal opportunity, diversity, and anti-discrimination

The Group incorporates the concepts of equal opportunity, diversity, and anti-discrimination into its organisational culture, which complies with relevant laws such as the Law of the People’s Republic of China on the Protection of Disabled Persons (中華人民共和國殘疾人保障法), Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong) and the Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong).

Recruitment is based on candidates’ relevant experience, qualifications, personalities, and comprehensive abilities. Training and promotion are also based on equal opportunities regardless of age, gender, place of origin, ethnicity, customs, religion, physical disability, and so on. The Group has zero tolerance for any kind of discrimination and harassment and aims to create a positive working environment, promotive of the concepts of equal opportunity, diversity, and anti-discrimination.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Safety

The Group attaches great importance to the safety and health of its employees in the course of operation, and strives to create a safe and comfortable working atmosphere. The Group has purchased commercial insurance for employees who travel frequently and arranged health check-ups for employees regularly to ensure their physical and mental health.

The Group has built a clear organizational structure of safety production management and established a safety management committee. The Group fully applied the "ISO45001 Occupational Health and Safety Management System" and "ISO14001 Environmental Management System". Based on the actual condition of the Company, it has established 29 procedures and management documents in various categories, covering emergency management, fire control management, dangerous goods management, construction management, safety training and safety production inspection, so as to implement safety management in all aspects. At the same time, the Group has dedicated personnel to manage these systems and files, and conduct regular assessment, maintenance, updating and upgrading.

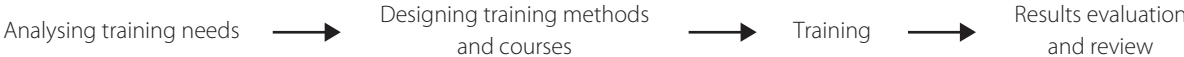
The Group has had no work-related fatalities and injuries for the past three years (including the reporting year). Accordingly, there was no loss of working day due to work-related injuries.

Safety seminars and drills

For the year ended 31 December 2022, the Group strictly enforced relevant laws and regulations such as "Labour Law of the People's Republic of China" (中華人民共和國勞動法), "Production Safety Law of the People's Republic of China" (中華人民共和國安全生產法), "Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases" (中華人民共和國職業病防治法) and "Fire Protection Law of the People's Republic of China" (中華人民共和國消防法). No violation against laws and regulations related to health and safety in the workplace have been found, and no cases of death due to work relationship and serious injuries at work occurred.

Development and Training

The Group has established the diversified career development paths to help staff development, which is expressly stated in the Human Resources Procedures, Training Management Measures, and Management Measures for Job Qualification and Performance Evaluation, and has implemented a continuous improvement model to promote training:



The Group's training methods include tutorials, meetings and discussions, technical exchanges and industry forums, information learning, etc. Employees can set goals and upgrade themselves according to their actual situation and get fair promotion.

In order to develop employees' potential and abilities to fulfil their duties and handle challenges in work, the Group has provided training for employees at all levels to help them to achieve self-improvement. The Group firmly believes that, every employee is its most precious asset. In terms of training contents, the Group has designed professional, general and project-based courses. Among these, professional courses are provided to employees working in R&D centre, sales centre, production centre, quality control, finance and various departments and positions. General courses and project-based courses cover a wider range of topics, including fire safety, occupational health and professional ethics. The Group designs different training programs for different levels of employees, for example, according to management level, it will design training targeted from the junior to the senior level.

The Group provides room for each employee to grow and develop, and sets up a proper training system to ensure that every employee in the Group will remain competitive and attractive in the highly competitive industry development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Breakdowns of the employee training by gender and employee category as at 31 December 2022 are set out below.

Employee training	Male				Female				Total			
	Number of employees trained	Approximate percentage of employees trained	Hours of training	Average training hours completed per employee	Number of employees trained	Approximate percentage of employees trained	Hours of training	Average training hours completed per employee	Number of employees trained	Approximate percentage of employees trained	Hours of training	Average training hours completed per employee
By employee category												
General	26	30%	335	7	15	17%	195	5	41	27%	530	6
Middle Management	22	24%	343	11	11	12%	195	16	33	22%	538	13
Senior Management	13	14%	95	7	3	3%	21	11	16	11%	116	8
Total	61	68%	773	8	29	32%	411	7	90	60%	1,184	8

Labour Standards

The Group employs staff in accordance with “Labour Law of the People’s Republic of China” (中華人民共和國勞動法), “Labour Contract Law of the People’s Republic of China” (中華人民共和國勞動合同法), “Special Rules on the Labour Protection of Female Employees” (女職工勞動保護特別規定) and “Regulations of the Shenzhen Special Economic Zone on the Promotion of the Harmonious Labour Relationship” (深圳經濟特區和諧勞動關係促進條例), actively complies with relevant labour laws and regulations, safeguards the labour interests of employees, creates a safe and stable working environment, ensures workplace hygiene and safety and properly takes care of employees’ physical and mental health.

The Group strictly prohibits the employment of any child or forced labour in its business. The Group reviews its employment practices from time to time and inspects the employment status of suppliers and business partners to prevent potential irregularities. In addition, the Group requires employees to fill in the entry form and provide personal data (including resume, identity documents, academic certificates, career background check, etc.) in an honest manner upon joining. The Human Resources Department and the Project Office will review before hiring to ensure that the recruitment complies with regulations and laws.

The Group has set up a suggestion box to receive suggestions and complaints from all employees. If the Group is found to have violated the relevant laws such as the employment of child labour, the employment will be terminated immediately. If forced labour is discovered, the Group will investigate and impose appropriate penalties such as warnings, book warnings, demerits, termination of employment contracts, etc. If the interests of the Group is affected, the relevant personnel will be held responsible in order to protect human rights and assume social responsibility.

For the year ended 31 December 2022, the Group did not find any significant violations against laws and regulations relating to the prevention of child and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

Supply Chain Management

To better perform corporate social responsibilities, the Company has established a supply chain management system which is managed by the supply chain management team of the Group in a centralized manner. Suppliers are selected and evaluated on the basis of fairness, impartiality, objectivity and information transparency. All existing and potential suppliers will be informed of the requirements of the Group on the social responsibility of suppliers, so as to promote suppliers' greater commitment to social responsibilities and environmental protection awareness. The Company has developed the Supplier Management Procedures which provides detailed standards and requirements in terms of corporate social responsibility, quality management, environment management, occupational safety, intellectual property, materials management, quality control and other aspects. All suppliers are required to carry out their social responsibilities.

The Group has entered into quality assurance agreements with its suppliers with 100% coverage, which set out the specific quality standards that suppliers must comply with and the passing rates required for quality inspection. The Group conducts internal checks on the raw materials received from its suppliers and delivers them for production afterwards. In particular, all the raw materials needed for outsourced production are purchased by the Group and passed its internal quality inspection before delivered to the outsourced manufacturers to ensure the quality of the raw materials of the products.

The following table shows the distribution of the Group's suppliers for the year ended 31 December 2022:

Distribution Area	Number of suppliers
Mainland China	251
Hong Kong	3
Taiwan	2

Supplier management process:



Selection and assessment

The Group emphasizes social responsibility during the resources collection, evaluation, selection and development process of suppliers under the premise of guaranteeing the quality and cost-performance, and prefers high-quality potential suppliers which comply with national requirements on environmental protection and social responsibility. The process is designed to guarantee equal opportunities for suppliers as well as fair and impartial evaluation and selection.

Supplier assessment is conducted by a team. A list specifying the scope of assessment is provided by category. In order to be qualified, a supplier must meet the requirements of the Company in respect of product quality, safety, environmental protection, management responsibility, social obligations and risk management. Its assessment team will assess and ascertain the qualification of supplier in an objective and fair manner and in strict compliance with the requirements of the process.

Based on the principle of "quality first, mutual benefits, joint development", the Group has built a solid foundation for win-win cooperation with its suppliers. The Group has the right to request for continuous quality improvement and the suppliers has the obligation to continuously improve the quality of their products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Monitoring and improvement

The “Corporate Resources Planning”, “Supplier Management Procedures” and Supplier Database System allow the Group to conduct supplier management categorised by different supplies or different classifications of service qualification. The database system records suppliers’ comprehensive information on business registration, on-time delivery, quality level, price management and performance evaluation score, etc. The Group has adopted supplier resource sharing strategies to conduct joint tendering and centralized procurement for projects at different places, which enhances the quality of products and reduces the cost of procurement in a dramatic way.

The Group requires suppliers to establish comprehensive quality and environment management system with reference to ISO9001, ISO14001 and ISO45001. Its supplier quality assurance team will conduct regular review and evaluation on the suppliers’ level of attainment in respect of their implementation and management. Suppliers failed to meet its requirements will be required to make improvement and receive counselling for the establishment of comprehensive management system.

Regarding the products of the Group, except for a few products that require high soldering reliability, which use lead-based processes, all other products must meet environmental protection requirements. Therefore, the Group is required to pay attention to supplier qualifications regards supplier’s product environmental protection policy and process control, and the ability to inspect the content of harmful substances when selecting supplier. The supplier selection and review process are under the responsibility by the supply chain management department, the procurement of environmentally friendly materials from suppliers is managed according to the following procedures:

The Group’s supplier management engineer will send the “Supplier Environmental Management Substance Control System Checklist” to the suppliers for self-assessment. After the self-assessment is qualified, the supplier management engineer will conduct an on-site review of the effectiveness of the supplier’s environmental protection system management. The on-site review mainly reviews the implementation status of the supplier’s environmental protection goals, the environmental protection laws and regulations, and the management and programming of environmentally friendly materials control and procurement. After the supplier’s on-site review is qualified, the Group will sign a green environmental protection (RoHS) compliance commitment letter with the supplier as part of a supplier quality assurance agreement.

For all new materials, according to the requirements of the group’s new material sample storage and confirmation management regulations, suppliers must provide qualified samples and attach qualified third-party samples RoHs testing report. In the subsequent product supplies, the supplier must provide a qualified third-party RoHs test report every year (or when the Group requires it). The quality department is responsible for inspecting the incoming materials according to the requirements of incoming inspection specifications.

Transparent procurement

In respect of supply chain management and procurement, the Group has adhered to the philosophy of “transparent procurement”, and has also been committed to its environment management and social responsibilities, so as to ensure that the corporate social responsibilities are fulfilled throughout the process of supply chain management and procurement and such process is “fair, open and equitable”. Management personnel of suppliers are required to exercise strict self-discipline and supervise their subordinates to create an ethical business environment within the Company with self-awareness to protect and ensure that their team members who work with the Group are aware of and abide by the requirements of “transparent procurement”. Any form of bribery shall be prohibited, and any improper business practices or unethical behaviour shall be disclosed to the Group proactively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

The Group adheres to the principle that “Quality is the life of Risecomm and the dignity of every employee”. In order to constantly provide customers with satisfactory products and services, the Group has been devoting its efforts to establish and improve its quality management system. The Group places importance on the reliability of product design, failure analysis and comprehensive reliability verification. All products would undergo strict system testing before they are finalized. R&D, pilot production, mass production, pre-sale technical support and after-sales service are all carried out by specialized quality control personnel.

For the year ended 31 December 2022, the Group did not find any major violation against the health and safety, advertising, labelling and privacy of the products and services provided, and strictly complied with relevant laws and regulations, including but not limited to, “Product Quality Law of the People’s Republic of China” (中華人民共和國產品質量法), “Law of the People’s Republic of China on the Protection of Consumer Rights and Interests” (中華人民共和國消費者權益保護法), “Advertising Law of the People’s Republic of China” (中華人民共和國廣告法), “Copyright Law of the People’s Republic of China” (中華人民共和國著作權法), “Patent Law of the People’s Republic of China” (中華人民共和國專利法) and “Trademark Law of the People’s Republic of China” (中華人民共和國商標法), etc. During the year under review, the Group received only 6 complaints about products, all of which have been repaired or reprocessed.

The Group has obtained the ISO9001 quality management system certification. The Group has also established a specialized quality control team responsible for carrying out quality control procedures based on the ISO9001 standard. The Group carries out quality control measures at various stages of the procurement and product manufacturing process. All suppliers must undergo different inspections before the Group approves their engagement, including on-site examinations and assessments, as well as sample tests, to ensure that the raw materials purchased by the Group and services outsourced by the Group would meet its quality standards and customer’s product requirements.

The Group also regularly sends quality control personnel to outsourced manufacturers to perform standard quality control procedures and closely monitor outsourced production processes. For IC chipsets, upon receipt of IC chipsets from chipset suppliers, it will conduct a series of internal inspections. For example, its warehouse and procurement personnel will first check the quantity and model of the IC chipsets, and its quality control team will check the vacuum packaging, function and quality of the IC chipsets as well as related quality control reports provided by suppliers. Any inferior products identified during the acceptance process will be returned to the supplier. For the year ended 31 December 2022, no sold or shipped products are subject to recall for safety and health reasons and the Group did not receive any products and services related complaints.

The Group has set up a communication station for customer products and services, and customers can give feedback on product quality and service issues at any time through telephone, email, and corporate WeChat. Each product of the Group has a full-time customer service engineer, which is managed by the marketing department.

When receiving customer feedback, the customer service personnel will transfer the feedback to the corresponding customer service engineer for further communication and confirmation with the customer. When the cause of the problem is related to usage, the customer service engineer will guide and solve it with the customer according to their requirements or remotely, and provide the customer with necessary technical support and service. After the problem is solved, the customer service personnel will contact the customer in time to see if they regard the problems have been solved satisfactorily.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

When the problem is related to product quality or service issue of the group, the customer is requested to report to the person in charge of the customer service of the Group. The customer service engineer and the quality management personnel will initially confirm the cause of the problem and transfer the problem to the relevant person in charge for analysis and handling. The quality management department is responsible for following up the progress of problem analysis and improvement, verification of improvement results, and responding to customer problem improvement countermeasure reports. The customer service engineer is responsible for following up the return and exchange of defective products, and completing the analysis of defective problems in a timely manner according to customer requirements, fulfilling the quality responsibilities and cost commitments stipulated in the quality agreement, and striving to improve customer satisfaction.

All customer feedback and complaints will be classified, analyzed and continuously improved by the quality department every month.

Product application and function problems caused by potential poor product design or process quality defects during sample testing, quality inspection and customer usage, or other problems (including technology, laws and regulations and emergencies) that affect the quality of delivered products or safety, according to the Group's "Unqualified Product Recall Management System", the quality department will convene relevant responsible personnel such as project, research and development, marketing, and legal counsel to evaluate the product quality risk level and determine the degree and scope of impact of defective products on customers to decide whether to initiate a recall of defective products.

If it is determined through review that a recall is to be initiated, the quality department is responsible for formulating a Product Recall Notice, specifying the reasons, methods, approaches, and handling methods for the recalled products. The marketing department negotiates with the customer, considers the impact on relevant parties of the recall, and chooses an appropriate way to release recall information, such as telephone, fax, email, media announcement, etc. The planning department traces the cause of the defect, and inform the marketing department to recall all relevant defective products in a timely manner.

The quality department is responsible for identification and classification of recalled products. According to the process of dealing with defective products, the quality department will complete the rework, repair and reliability testing of defective products, or scrap the defective products directly. After the recall activity is over, the quality department will compile the "Recall Product Analysis Report" as input for management review. The report should include the reasons for the recall, handling results, impact, problem improvement and preventive measures.

Its IC chipset inventory will be managed in accordance with the "first-in-first-out" policy. The Group will conduct quality reviews on IC chipsets aged over six months to ensure that the chipsets are qualified for production use. The Group also operates internal testing and quality control systems to ensure consistent quality of finished products and application of proprietary technologies. These procedures mainly include functional and product safety tests, as well as packaging inspections. Due to its business nature, the Group considers information relating to advertising and labelling is immaterial.

Green product

Provision of energy-efficient green products and solutions to reduce carbon emission is the main objective of product development of the Group. Its smart energy control products have been in compliance with the energy-efficient requirements throughout the development, production and delivery process. Through advanced technology, optimised design of standby function of products and streamlined product packaging, the Group has been improving the management of its energy-saving control system, enhancing management efficiency, and facilitating its operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Intellectual property rights

In order to protect the intellectual properties of the Group, the Group has formulated the Management Measures for Intellectual Property to regulate the requirements of protection and supervision in accordance with the “Patent Law of the People’s Republic of China” (中華人民共和國專利法), the “Detailed Rules for the Implementation of the Patent Law of the People’s Republic of China” (中華人民共和國專利法實施細則) and the “Provisions of Patent of Guangdong Province” (廣東省專利條例), etc. Also, it has established an intellectual property rights management system in accordance with the national requirements under GB/T 29490-2013 “Enterprise Intellectual Property Management Practice” (企業知識產權管理規範), so as to protect the intellectual property rights of the Group.

As of 31 December 2022, the Group held an important intellectual property portfolio comprising 25 patents, 129 computer software copyrights and 9 registered IC layout designs, and 1 patent pending registration in the relevant jurisdiction, signifying the Group’s achievements in R&D in PLC technology and the MSI of the petroleum and petrochemical industries.

Privacy protection

Furthermore, the Group places great importance to the privacy protection of customers, employees and suppliers, and is committed to maintaining and safeguarding its relevant information, including brand-related intellectual property and confidential information or any form of confidential information of potential property interests or economic value. At the same time, cooperating suppliers are required to sign relating provisions to prevent leakage of confidential information and prevent the relevant information from unauthorized use through appropriate technical means and processes. Any leakage of supplier or staff information will be strictly investigated and processed in accordance with the effective provisions signed or internal regulations.

The Group emphasizes on the protection of consumer data and privacy. Each new employee is required to sign an employment contract agreeing not to disclose the Group’s confidential data, including consumer data and personal information, during or after employment without the Group’s authorisation. The relevant policy is implemented and monitored by dedicated personnel.

Anti-corruption

In respect of staff management, the management and all employees in the Group are required to strictly follow the principle of “being a man of integrity and working with integrity” and comply with the “Code of Conduct for Employees”, the “Management Rules of Motivation and Discipline”, the “Management Rules of Anti-corruption and Reporting and Complaint” and related national laws and regulations. In the event that an employee’s interests are found to be infringed as a result of internal frauds, unethical business practice, violation against laws and regulations or professional misconduct, complaints and reports may be made directly to the supervisor or relevant department.

In order to further prevent fraudulent practices, enhance the governance and internal control and protect the legitimate interests of the Group and shareholders, the Group has also created an email address specialized for reporting, through which employees may directly report illegal or irregularities in work or operation to the top management. Investigation will be taken to the extent permitted by laws.

Whistleblowing emails are managed by two designated management staffs for monitoring purposes. If a report case exists, management will conduct an investigation. If management believes that a criminal offence has been committed, it will report to law enforcement agencies where necessary.

For the year ended 31 December 2022, the Group has provided anti-corruption training to its directors and staff. For example, “ESG training on Anti-corruption”, “Management Rules of Anti-corruption and Reporting and Complaint” and “Management Procedures for Encouraging Employees to Declare Conflicts of Interest”. The total number of participants was 60 and the total number of training hours was 185.

Subsidiaries are required to strictly comply with the “Hong Kong Financial Reporting Standards” and strengthen random financial audit to prevent financial risks. Also, the Group has made its anti-corruption management requirements clear, expanded internal and external reporting channels and established a smooth and efficient management system to support employees to report directly on any suspected violation against integrity regulations. The identity of whistle-blower will be protected.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supplier management

The Group requires its suppliers to include anti-bribery provisions in contracts so as to guarantee that their personnel (company employees, agents, negotiators or other designated personnel) will not make any direct or indirect bribery or other improper payments to the Group's employees and not engage in activities which are in contravention with business ethics and the "Anti-unfair Competition Law" (反不正當競爭法) and other laws and regulations. If a supplier is found to have violated any laws or commitments in the contract, the Group has the right to terminate any transaction with the suppliers involved.

The Group has authorized the human resources department to set up reporting telephone hotline and email address for external parties (including suppliers and customers) and to monitor violation against laws or regulations which involves individual unlawful profits and damage to the Group's reputable and economic benefits.

For the year ended 31 December 2022, the Group strictly complied with the relevant laws and regulations to prevent bribery, extortion, fraud and money laundering, including but not limited to, "Company Law of the People's Republic of China (中華人民共和國公司法)", "The Bidding Law of the People's Republic of China (中華人民共和國招標投標法)", "Criminal Law of the People's Republic of China (中華人民共和國刑法)", "Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法)" and "Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定)". The Group was not aware of any case related to corruption and bribery. There are no concluded legal cases regarding corrupt practices brought against the Group or its employees.

Community Investment

Since its establishment, the Group has been actively devoted to social-charitable services. The Group bears in mind of its social responsibility in actively fostering good relationship with the communities where it operates and participates in the promotion of exchanges among enterprise in high-tech parks. However, as successive confirmed case of virus variants such as Delta and Omicron was found in different countries, and to avoid over-crowding in the premise, the Group did not participate in charitable activities in 2022.

INDEPENDENT AUDITOR'S REPORT



RSM Corporate Advisory (Hong Kong) Limited

29th Floor, Lee Garden Two, 28 Yun Ping Road,
Causeway Bay, Hong Kong

T +852 2598 5123

F +852 2598 7230

www.rsmhk.com

羅申美企業顧問有限公司

香港銅鑼灣恩平道二十八號
利園二期二十九字樓

電話 +852 2598 5123

傳真 +852 2598 7230

www.rsmhk.com

To the SHAREHOLDERS of RISECOMM GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Risecomm Group Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 78 to 165, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Material Uncertainties Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB119,095,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,975,000. Its current liabilities, included borrowings and lease liabilities amounting to approximately RMB122,528,000 and approximately RMB4,122,000 respectively while cash and cash equivalents amounted to approximately RMB86,652,000 only. These events and conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

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

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcomes of these measures, which are subject to significant uncertainties. As of the date of approval of the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced. Negotiations with the lender to extend the repayment date of the borrowings amounted to HK\$120,000,000 due by 11 August 2023 have not yet been concluded.

INDEPENDENT AUDITOR'S REPORT



BASIS FOR DISCLAIMER OF OPINION *(Continued)*

Material Uncertainties Related to Going Concern *(Continued)*

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE 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 Hong Kong Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants (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 Audit Committee assists the Directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement partner on the audit resulting in this independent auditor's report is Yu Kwok Keung.

RSM Hong Kong

Certified Public Accountants

29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	8	149,851	248,154
Cost of sales		(110,775)	(205,149)
Gross profit		39,076	43,005
Other income, (losses)/gains	9	(594)	6,169
(Allowance)/reversal for impairment losses on financial assets, net		(7,356)	10,271
Selling and marketing expenses		(17,314)	(24,728)
General and administrative expenses		(55,165)	(60,762)
Research and development expenses		(22,265)	(19,596)
Loss from operations		(63,618)	(45,641)
Impairment losses of goodwill	21	(20,718)	–
Impairment losses of intangible assets	22	(46,706)	–
Finance costs	11	(7,358)	(9,487)
Share of results of an associate		–	(42)
Fair value gains/(losses) on financial instruments at fair value through profit and loss	41	1,375	(6,916)
Loss before tax		(137,025)	(62,086)
Income tax credit	12	17,930	6,833
Loss for the year		(119,095)	(55,253)
Loss for the year attributable to:			
Owners of the Company		(118,584)	(55,253)
Non-controlling interests		(511)	–
		(119,095)	(55,253)
Loss per share attributable to owners of the Company			
Basic and diluted (RMB cents)	18	(6.61)	(5.05)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Loss for the year		(119,095)	(55,253)
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value changes of equity investment at fair value through other comprehensive income ("FVTOCI")		(2,246)	–
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(11,562)	7,407
Other comprehensive income for the year, net of tax		(13,808)	7,407
Total comprehensive loss for the year		(132,903)	(47,846)
Total comprehensive loss for the year attributable to:			
Owners of the Company		(132,392)	(47,846)
Non-controlling interests		(511)	–
		(132,903)	(47,846)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	19	18,192	20,251
Right-of-use assets	20	7,079	10,310
Goodwill	21	–	20,718
Intangible assets	22	47,777	119,050
Interest in an associate	24	–	–
Financial assets at FVTOCI	25	554	–
Deferred tax assets	36	34,472	37,967
Total non-current assets		108,074	208,296
Current assets			
Inventories	26	27,814	15,890
Contract costs	27	786	786
Contract assets	28	16,629	33,987
Trade and other receivables	29	98,766	120,777
Restricted bank deposits	30	2,619	104
Bank and cash balances	30	86,652	91,705
Total current assets		233,266	263,249
TOTAL ASSETS		341,340	471,545
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	31	158	151
Reserves	33	74,734	193,648
		74,892	193,799
Non-controlling interests		(511)	–
Total equity		74,381	193,799

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	34	955	1,624
Lease liabilities	35	3,471	7,248
Deferred tax liabilities	36	10,609	28,108
Borrowings	37	2,683	4,904
Total non-current liabilities		17,718	41,884
Current liabilities			
Trade and other payables	38	113,512	100,951
Contract liabilities	39	6,207	10,586
Borrowings	37	122,528	–
Lease liabilities	35	4,122	3,774
Acquisition consideration payables	40	–	–
Convertible bonds	41	–	117,590
Income tax payables		2,872	2,961
Total current liabilities		249,241	235,862
TOTAL EQUITY AND LIABILITIES		341,340	471,545

Approved by the Board of Directors on 29 March 2023 and are signed on its behalf by:

Yue Jingxing
Director

Lau Wai Leung, Alfred
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company							Total	Non-controlling interest	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	FVTOCI reserve	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
	(note 31)	(note 33(b)(i))	(note 33(b)(iii))	(note 33(b)(iii))	(note 33(b)(iv))	(note 33(b)(v))				
At 1 January 2021	86	231,362	133,173	22,698	21,469	-	(294,447)	114,341	-	114,341
Total comprehensive losses for the year	-	-	-	-	7,407	-	(55,253)	(47,846)	-	(47,846)
Equity-settled share-based payments (note 42)	-	-	817	-	-	-	-	817	-	817
Share options forfeited (note 42)	-	-	(1,774)	-	-	-	1,774	-	-	-
Appropriation to reserves	-	-	-	599	-	-	(599)	-	-	-
Share subscription (note 31(b))	17	27,736	-	-	-	-	-	27,753	-	27,753
Less: Share issue expenses	-	(134)	-	-	-	-	-	(134)	-	(134)
Rights issue (note 31(c))	48	100,389	-	-	-	-	-	100,437	-	100,437
Less: rights issue expenses	-	(1,569)	-	-	-	-	-	(1,569)	-	(1,569)
Changes in equity for the year	65	126,422	(957)	599	7,407	-	(54,078)	79,458	-	79,458
At 31 December 2021	151	357,784	132,216	23,297	28,876	-	(348,525)	193,799	-	193,799

	Attributable to owners of the Company							Total	Non-controlling interest	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	FVTOCI reserve	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
	(note 31)	(note 33(b)(i))	(note 33(b)(ii))	(note 33(b)(iii))	(note 33(b)(iv))	(note 33(b)(v))				
At 1 January 2022	151	357,784	132,216	23,297	28,876	-	(348,525)	193,799	-	193,799
Total comprehensive losses for the year	-	-	-	-	(11,562)	(2,246)	(118,584)	(132,392)	(511)	(132,903)
Equity-settled share-based payments (note 42)	-	-	302	-	-	-	-	302	-	302
Deregistration of a subsidiary	-	-	-	(1,614)	-	-	1,614	-	-	-
Share subscription (note 31(a))	7	13,229	-	-	-	-	-	13,236	-	13,236
Less: Share issue expenses	-	(53)	-	-	-	-	-	(53)	-	(53)
Changes in equity for the year	7	13,176	302	(1,614)	(11,562)	(2,246)	(116,970)	(118,907)	(511)	(119,418)
At 31 December 2022	158	370,960	132,518	21,683	17,314	(2,246)	(465,495)	74,892	(511)	74,381

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(137,025)	(62,086)
Adjustments for:			
Finance costs	11	7,358	9,487
Share of loss of an associate		–	42
Depreciation of property, plant and equipment	19	2,758	4,499
Depreciation of right-of-use assets	20	3,682	4,782
Amortisation of intangible assets	22	24,567	22,658
(Gain)/loss on disposal of property, plant and equipment		(47)	174
Loss on disposal of right-of-use assets		–	22
Loss on deregistration of a subsidiary	43(a)	5,148	–
Equity-settled share-based payment		302	817
Fair value (gain)/loss on financial instruments at fair value through profit or loss	41	(1,375)	6,916
Allowance/(reversal) for impairment losses of financial assets, net		7,356	(10,271)
Impairment losses of intangible assets		46,706	–
Impairment losses of goodwill	21	20,718	–
(Reversal)/provision for impairment loss on inventories		(305)	2,546
Write-down of inventories		946	–
Interest income from bank deposits	9	(992)	(1,367)
COVID-19 related concessions received	9	(547)	–
Net foreign exchange loss	9	511	344
Operating loss before working capital changes		(20,239)	(21,437)
(Increase)/decrease in inventories		(12,565)	4,065
Decrease in contract costs		–	5,045
Decrease/(increase) in contract assets		13,937	(33,987)
Decrease in trade and other receivables		18,061	21,079
Increase in trade and other payables		12,573	21,506
Decrease in contract liabilities		(4,379)	(20,547)
Decrease in deferred income		(669)	(1,361)
Cash generated from/(used in) operations		6,719	(25,637)
Income tax paid		(1,075)	(273)
Interest on lease liabilities		(461)	(616)
Net cash generated from/(used in) operating activities		5,183	(26,526)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		992	1,367
Redemption of acquisition consideration payable upon maturity		–	(116,800)
Purchase of property, plant and equipment		(900)	(1,406)
Purchase of intangible assets		–	(168)
Purchase of unlisted equity security under financial assets at FVTOCI		(2,800)	–
Increase in restricted bank deposits		(2,515)	(104)
Proceeds from disposal of property, plant and equipment		248	812
Net cash used in investing activities		(4,975)	(116,299)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for interest on convertible bonds		(5,116)	(4,954)
Payment for interest on acquisition consideration payable		–	(8,998)
Payment for interest on borrowings		(2,583)	–
Payment for interest on bank loan		(6)	–
Proceeds from rights issue		–	98,868
Proceeds from share subscription		13,183	27,619
Borrowing raised		6,147	4,741
Repayment of borrowings		(13,567)	–
Principal element of lease payment		(3,904)	(4,552)
Net cash (used in)/generated from financing activities		(5,846)	112,724
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,638)	(30,101)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		585	137
CASH AND CASH EQUIVALENTS AT 1 JANUARY		91,705	121,669
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		86,652	91,705
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		86,652	91,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 23 to the consolidated financial statements.

2. BASIS OF PREPARATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. BASIS OF PREPARATION *(Continued)*

The Group incurred a net loss of approximately RMB119,095,000 during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,975,000. Its current borrowings and lease liabilities amounted to approximately RMB122,528,000 and approximately RMB4,122,000 respectively while its cash and cash equivalents amounted to approximately RMB86,652,000 only. These events and conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the Directors have taken the following measures:

- (a) The Group is in progress to implement operational plans to control costs and generate sufficient operating cash flows to meet its current and future obligations. These actions include cost control measures, and timely collection of outstanding receivables;
- (b) The Group is in progress to negotiate with the lender for extension of repayment date of the borrowings amounted to HK\$120,000,000 due by 11 August 2023; and
- (c) The Group plans to raise new funding by means of equity financing.

The Directors have reviewed the Group's cashflow projections prepared by the management. The cash flow projection cover a period of not less than twelve months from 31 December 2022. Having taken into account the above-mentioned plans and measures, the Directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due within the next twelve months from the date of the consolidated statement of financial position. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

However, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. As of the date of approval of the consolidated financial statements, the plan for further fund raising by means of equity financing has not yet been commenced. Negotiations with the lender to extend the repayment date of the borrowings amounted to HK\$120,000,000 due by 11 August 2023 have not yet been concluded.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(a) Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Filling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements Project	Annual Improvements to HKFRS Standard 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

The Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2022. The new standard, amendments to standards and interpretation include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 — Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 — Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 — Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16 — Lease Liability in a Sales and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities, over which the Group has control. 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary; and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Separate financial statements

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sale). Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are, with limited exceptions, measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(d) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates *(Continued)*

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate; and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), the functional currency of the Company is Hong Kong dollars. The Directors consider that choosing Renminbi as the presentation currency best suits the needs of the shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(ii) Transactions and balances in each entity's financial statements *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5%
Leasehold improvements	20%–33.3%
Machinery and equipment	10%–20%
Office and other equipment	20%–33.3%
Motor vehicles	12.5%–25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(g) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Group as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

To determine the incremental borrowing rate, the Group:

- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leases *(Continued)*

(i) The Group as a lessee *(Continued)*

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification. If this is such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative lease payments in profit or loss in the period in which the event or condition that triggers the recent concessions occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leases *(Continued)*

(ii) **The Group as a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(h) Intangible assets

(i) **Internally-generated intangible assets — research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's AMR business' development is recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available;
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

(ii) Intangible assets acquired separately

Other intangible assets represent the software and other intangible assets identified in acquisitions which are stated in the consolidated statement of financial position, being amortised on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

Software and others	3–10 years
Non-compete undertaking	5–7 years
Customer relationships	3–10 years
Unfulfilled contracts	2 years

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any impairment losses.

Both the estimated useful life and method of amortisation are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“ECL”) in accordance with the policy set out in note 4(cc) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(l) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on volatile organic compounds related assets under the control of the customer and therefore the Group’s construction activities create or enhance an asset under the customer’s control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The Directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

The Group becomes entitled to invoice customers for construction of properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by an assessor of the customers and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**") are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(n) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- fair value through other comprehensive income ("**FVTOCI**") — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial assets *(Continued)*

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

(p) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

The Group has designated the convertible bonds with conversion option derivative held by the bond holders as financial liabilities at FVTPL. At the date of initial recognition and at the end of subsequent reporting periods, the convertible bonds are measured at fair value with changes in fair value recognised directly in profit or loss in the period in which they arise except for changes in the fair value that is attributable to changes in the credit risk (excluding changes in fair value of the derivatives component) is recognised in other comprehensive income, unless the recognition of the effects of changes in the credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to the credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss, they are transferred to accumulated losses upon derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(i) AMR and other business

Revenue from the sale of goods is recognised at a point in time when the customer takes possession of and accept the products.

Revenue from the maintenance services is recognised at a point in time when the service is rendered and control over the service is transferred to the customers upon customer's acknowledgement of service rendered.

(ii) Smart manufacturing & industrial automation ("SMIA") business

Revenue from the software licenses is recognised at the point in time when the license software is delivered and accepted by the customers. In cases where the Group allocates revenue to post-contract customer support, primarily because the support is provided at no additional charge, revenue is recognised as the support is provided, which is generally ratably over the service period of the related software.

(iii) Construction contract income

Revenue from construction contracts is recognised in accordance with the policy set out in note 4(l) above.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

(w) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The Group operates various post-employment schemes, including defined contribution pension plans.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(x) Share-based payments

The Group issues equity-settled share-based payments to certain Directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(y) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

(aa) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group firstly determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(bb) Impairment of non-financial assets

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss and other comprehensive income to its estimated recoverable amount unless the relevant asset is carried at a revalued amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGU are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Impairment of financial assets

The Group recognises allowances for impairment for ECL on trade and bills receivables and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and bills receivables and assessed individually. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instruments. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) the financial instrument has a low risk of default;
- (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; or
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulties of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Impairment of financial assets *(Continued)*

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment loss or reversal of an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account.

(dd) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

(ee) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In applying the Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the sufficient of finance resources available to the Group. Details are explained in note 2 to the consolidated financial statements.

(b) Distinction between investment properties and owner-occupied properties

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production of goods. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of goods. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

(c) Significant increase in credit risk

As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

(d) Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 20 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. During the current financial year, no lease term has been reassessed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, RMB17,930,000 of income tax credit was recognised to profit or loss based on mainly the net effect of recognition of deferred tax asset and derecognition of deferred tax liability (2021: income tax credit of RMB6,833,000 was recognised to profit or loss based on mainly the net effect of recognition of deferred tax asset and derecognition of deferred tax liability).

(b) Revenue and profit recognition

As explained in policy notes 4(l) and 4(v), revenue from construction contract and from post-contract customer support service are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the Group's recent experience and the nature of the services and construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract costs disclosed in note 27 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

During the year, RMB7,907,000 (2021: RMB94,488,000) of revenue from post-contract customer support service and construction contracts was recognised.

(c) Impairment of intangible assets, property, plant and equipment, and right-of-use assets

Intangible assets, property, plant and equipment, and right-of-use assets are stated at costs less accumulated amortisation and depreciation, and any impairment. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether any events have occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The carrying amount of intangible assets, property, plant and equipment, and right-of-use assets as at 31 December 2022 were RMB47,777,000 (2021: RMB119,050,000), RMB18,192,000 (2021: RMB20,251,000) and RMB7,079,000 (2021: RMB10,310,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

The carrying amount of goodwill at the end of the reporting period was Nil (2021: RMB20,718,000) after an impairment loss of RMB20,718,000 (2021: Nil) was recognised during the year. Details of the impairment loss calculation are provided in note 21 to the consolidated financial statements.

(e) Impairment of trade and other receivables

The management of the Group estimates the amount of impairment losses for ECL on trade and other receivables based on the credit risk of trade and other receivables. The amount of the impairment losses of trade and other receivables based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2022, the carrying amount of trade and other receivables is RMB98,766,000 (net of allowance for impairment of RMB62,999,000) (2021: RMB120,777,000 (net of allowance for impairment of RMB59,895,000)).

(f) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Reversal of RMB305,000 for slow-moving inventories was made for the year ended 31 December 2022 (2021: allowance for impairment of RMB2,546,000).

(g) Warranty provisions

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.

(h) Fair value measurement of financial investments at FVTOCI

In the absence of quoted market prices in an active market, the directors estimate the fair value of the Group's investment in an unlisted company, details of which are set out in note 25 to the consolidated financial statements, by considering information from a variety of sources, including the latest published financial information, the historical data on market volatility as well as the price and industry and sector performance of an unlisted company.

The carrying amount of the investment as at 31 December 2022 was RMB554,000 (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency, Hong Kong dollars and RMB, of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise. The currency giving rise to this risk is primarily United States Dollars ("USD").

At 31 December 2022, if the RMB had weakened 5 per cent against the USD with all other variables held constant, consolidated loss after tax for the year would have been RMB441,000 (2021: RMB455,000) higher, arising mainly as a result of the foreign exchange loss on cash and bank balances and trade and other payables denominated in USD. If the RMB had strengthened 5 per cent against USD with all other variables held constant, consolidated loss after tax for the year would have been RMB441,000 (2021: RMB455,000) lower, arising mainly as a result of the foreign exchange gain on cash and bank balances and trade and other payables denominated in USD.

(b) Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances, borrowings and convertible bonds. The Group's convertible bonds and borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to interest-rate risk arises from its bank balances. These bank balances bear interests at variable rates that vary with the then prevailing market condition.

At 31 December 2022, if interest rates had been 100 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB750,000 (2021: RMB776,000) higher, arising mainly as a result of lower interest income on bank balances. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB750,000 (2021: RMB776,000) lower, arising mainly as a result of higher interest income on bank deposits.

(c) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and bills receivables) and from its financing activities, including deposits with banks. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 19.3% (2021: 18.2%) and 22.1% (2021: 52.9%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are usually due within 180 days from the date of billing. Debtors with balances past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures allowance for impairment of trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance for impairment of trade and bills receivables based on historical credit loss experience is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2022:

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category I			
Within 6 months	1.5	7,633	112
After 6 months but within 1 year	3.1	710	22
After 1 year but within 2 years	5.4	1,846	100
After 2 years but within 3 years	22.2	455	101
After 3 years	100.0	343	343
Individually impaired	100.0	3,474	3,474
		14,461	4,152

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category II			
Within 6 months	5.4	1,946	105
After 6 months but within 1 year	15.4	13	2
After 1 year but within 2 years	34.7	2,942	1,020
After 2 years but within 3 years	71.1	350	249
After 3 years	100.0	463	463
Individually impaired	100.0	13,422	13,422
		19,136	15,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category III			
Within 6 months	3.2	4,313	136
After 6 months but within 1 year	10.8	74	8
After 1 year but within 2 years	24.1	311	75
After 2 years but within 3 years	52.1	163	85
After 3 years	100.0	3,865	3,865
Individually impaired	100.0	9,372	9,372
		18,098	13,541

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category IV			
Within 6 months	0.0	64	–
After 6 months but within 1 year	0.0	–	–
After 1 year but within 2 years	0.0	–	–
After 2 years but within 3 years	50.2	3,617	1,814
After 3 years	0.0	–	–
Individually impaired	100.0	4,789	4,789
		8,470	6,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category V			
Within 6 months	0.5	3,598	19
After 6 months but within 1 year	8.0	2,245	179
After 1 year but within 2 years	17.1	38,011	6,492
After 2 years but within 3 years	76.8	10,607	8,149
After 3 years	100.0	5,634	5,634
Individually impaired	100.0	51	51
		60,146	20,524

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2021:

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category I			
Within 6 months	7.0	3,948	275
After 6 months but within 1 year	13.2	660	87
After 1 year but within 2 years	29.5	1,358	400
After 2 years but within 3 years	88.8	277	246
After 3 years	100.0	287	287
Individually impaired	100.0	6,423	6,423
		12,953	7,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category II			
Within 6 months	11.2	197	22
After 6 months but within 1 year	17.0	3,412	579
After 1 year but within 2 years	39.4	561	221
After 2 years but within 3 years	83.8	1,548	1,297
After 3 years	100.0	190	190
Individually impaired	100.0	14,199	14,199
		20,107	16,508

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category III			
Within 6 months	2.7	661	18
After 6 months but within 1 year	8.9	326	29
After 1 year but within 2 years	12.9	295	38
After 2 years but within 3 years	50.7	148	75
After 3 years	100.0	4,160	4,160
Individually impaired	100.0	9,571	9,571
		15,161	13,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category IV			
Within 6 months	0.0	2,819	–
After 6 months but within 1 year	0.0	1,531	–
After 1 year but within 2 years	36.1	3,617	1,305
After 2 years but within 3 years	0.0	–	–
After 3 years	100.0	–	–
Individually impaired	100.0	4,629	4,629
		12,596	5,934

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Allowance for impairment of trade and bills receivable RMB'000
Risk Category V			
Within 6 months	2.2	63,199	1,369
After 6 months but within 1 year	12.7	260	33
After 1 year but within 2 years	32.4	15,344	4,975
After 2 years but within 3 years	92.8	899	834
After 3 years	100.0	5,338	5,338
Individually impaired	100.0	377	377
		85,417	12,926

Expected loss rates are based on actual loss experience over the historical default data. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk *(Continued)*

Trade and other receivables *(Continued)*

Movements in the allowance/(reversal) for impairment losses of trade receivables during the years are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	56,977	83,398
Amount written off during the year	(831)	(15,632)
Allowance/(reversal) for impairment losses recognised for the year	3,935	(10,789)
At 31 December	60,081	56,977

The significant changes in the allowance for impairment losses for trade receivables was attributed by the long aged trade receivables during 2022.

Other receivables

	2022 RMB'000	2021 RMB'000
At 1 January	2,918	2,400
Impairment losses recognised for the year	–	518
At 31 December	2,918	2,918

The Group's exposure to ECLs for other receivables as at 31 December 2022 are estimated as immaterial.

Contract assets

	2022 RMB'000	2021 RMB'000
At 1 January	–	–
Impairment losses recognised for the year	3,421	–
At 31 December	3,421	–

The significant changes in the impairment losses for contract assets was attributed by the long aged contract assets during 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Within 1 year or on demand RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2022				
Trade and other payables	113,512	–	–	113,512
Borrowings	130,577	2,697	–	133,274
Lease liabilities	4,400	2,627	961	7,988
	248,489	5,324	961	254,774
At 31 December 2021				
Trade and other payables	100,951	–	–	100,951
Convertible bonds	127,546	–	–	127,546
Borrowings	196	5,024	–	5,220
Lease liabilities	4,225	4,158	3,472	11,855
	232,918	9,182	3,472	245,572

(e) Categories of financial instruments at 31 December

	2022 RMB'000	2021 RMB'000
Financial assets:		
Financial assets measured at amortised cost	187,628	220,721
Financial assets measured at FVTOCI	554	–
Financial liabilities:		
Financial liabilities at FVTPL	–	117,590
Financial liabilities measured at amortised cost	244,078	113,699

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

During the years ended 31 December 2022 and 2021, there was no transfer between Level 2 and Level 3. The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value. Further, for the current period the fair value disclosure of lease liabilities is also not required.

(a) Disclosures of level in fair value hierarchy

Description	Fair value measurements as at	
	31 December 2022 Level 3 RMB'000	31 December 2021 Level 3 RMB'000
Recurring fair value measurements:		
Financial assets		
Financial assets at FVTOCI		
— Unlisted equity securities	554	—
Financial liabilities		
Financial liabilities at FVTPL		
— Convertible bonds	—	117,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. FAIR VALUE MEASUREMENTS *(Continued)*

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022:

The Group's financial reporting team is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The team reports directly to the Financial Director for these fair value measurements. Discussions of valuation processes and results are held between the Financial Director and the Board of Directors twice a year, to coincide with the reporting dates. The Group engages external valuation firms to perform valuations for its financial instruments where necessary.

For level 3 fair value measurement, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range		Effect on fair value for increase of inputs	Fair value	
			2022	2021		2022	2021
						RMB'000	RMB'000
						Assets/(Liabilities)	
Convertible bonds	Option pricing model	Expected volatility	–	56.9%	Increase	–	(117,590)
Financial assets at FVTOCI – unlisted equity security	Adjusted net asset value	Discounted rate	–	14.3%	Increase	554	–
		Net assets value	N/A	N/A	Increase		

During the two years, there were no changes in the valuation techniques used.

(c) Reconciliation of assets measured at fair value based on level 3:

	2022	2021
	RMB'000	RMB'000
Financial assets at fair value through other comprehensive income — unlisted equity securities		
At 1 January	–	–
Purchase	2,800	–
Net unrealised losses recognised in other comprehensive income during the year	(2,246)	–
At 31 December	554	–

Any gains or losses arising from the remeasurement of the Group's equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8. REVENUE

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

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

(a) Disaggregation of revenue

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

	2022 RMB’000	2021 RMB’000
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products or service lines:		
AMR and other business		
— PLC Integrated circuits (“ICs”)	10,320	19,137
— PLC Modules	39,670	1,139
— Other products	34,417	15,572
— AMR maintenance services	3,733	12,434
Sub-total of AMR and other business	88,140	48,282
SMIA business		
— Software license	34,294	82,492
— Production safety products	19,510	22,892
Sub-total of SMIA business	53,804	105,384
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products or service lines:		
SMIA business		
— Post-contract customer support service	3,501	2,668
— Construction contracts	4,406	91,820
Sub-total of SMIA business	7,907	94,488
Total	149,851	248,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8. REVENUE *(Continued)*

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 and the expected timing of recognising revenue as follows:

	Software license		Post-contract customer support service	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Within one year	29,619	32,733	3,291	3,637
More than one year but not more than two years	14,053	29,619	1,562	3,291
More than two years	21,080	35,133	2,342	3,904
	64,752	97,485	7,195	10,832

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

9. OTHER INCOME, (LOSSES)/GAINS

	2022 RMB'000	2021 RMB'000
Interest income from bank deposits	992	1,367
Government grant		
— Unconditional subsidies (note (a))	2,161	3,299
— Conditional subsidies (note (b))	752	1,360
Gain/(loss) on disposals of property, plant and equipment	47	(174)
Loss on deregistration of a subsidiary	(5,148)	–
Net foreign exchange loss	(511)	(344)
Rental income	583	493
COVID-19 rental concession (note 20)	547	–
Others	(17)	168
	(594)	6,169

Notes:

- 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.
- During the year, the Group recognised an amount of approximately RMB752,000 (2021: approximately RMB1,360,000) of government grants in respect of the acquisition of plant and equipments for supporting research and development stages related subsidies, and Employment Support Scheme provided by Hong Kong government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10. SEGMENT INFORMATION

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

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

The Group's reportable segments are as follows:

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

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

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include unallocated general and administrative expenses, share of results of an associate, other income, (losses)/gains, fair value gains/(losses) on financial instruments at fair value through profit or loss, finance costs, impairment losses of goodwill, impairment losses of intangible assets, (allowance)/reversal for impairment losses of financial assets, net and income tax credit.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10. SEGMENT INFORMATION *(Continued)*

(a) Information about operating segment profit or loss

The segment information provided to the Group's most senior executive management for the reportable segments for the years ended 31 December 2022 and 2021 is as follows:

Year ended 31 December 2022	AMR and other business RMB'000	SMIA business RMB'000	Total RMB'000
Revenue	88,140	61,711	149,851
Cost of Sales	(60,539)	(50,236)	(110,775)
Selling and marketing expenses	(10,604)	(6,710)	(17,314)
Research and development expenses	(21,246)	(1,019)	(22,265)
Reportable segment results	(4,249)	3,746	(503)
Amortisation expenses of intangible assets identified in acquisitions	–	22,036	22,036
Year ended 31 December 2021	AMR and other business RMB'000	SMIA business RMB'000	Total RMB'000
Revenue	48,282	199,872	248,154
Cost of Sales	(31,343)	(173,806)	(205,149)
Selling and marketing expenses	(10,128)	(14,600)	(24,728)
Research and development expenses	(17,974)	(1,622)	(19,596)
Reportable segment results	(11,163)	9,844	(1,319)
Amortisation expenses of intangible assets identified in acquisitions	–	22,036	22,036

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

10. SEGMENT INFORMATION *(Continued)*

(b) Reconciliations of segment revenue and profit or loss

	2022 RMB'000	2021 RMB'000
Reportable segment results	(503)	(1,319)
Other income, (losses)/gains	(594)	6,169
General and administrative expenses	(55,165)	(60,762)
Finance costs	(7,358)	(9,487)
Share of results of an associate	–	(42)
(Allowance)/reversal for impairment losses of financial assets, net	(7,356)	10,271
Impairment losses of goodwill	(20,718)	–
Impairment losses of intangible assets	(46,706)	–
Fair value gains/(losses) on financial instruments at fair value through profit or loss	1,375	(6,916)
Loss before tax	(137,025)	(62,086)

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

(c) Revenue from major customers

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

	2022 RMB'000	2021 RMB'000
Customer A	36,369	36,313
Customer B (note)	–	91,580
Customer C (note)	–	28,118
Customer D	20,678	–
Customer E	17,708	–

Note: Revenue from these customers for the year ended 31 December 2022 did not contribute over 10% of the total revenue for the year.

11. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest expenses on promissory notes (note 40)	–	8,793
Interest expenses on lease liabilities	461	616
Interest expenses on bank and other borrowings	2,589	78
Imputed interest expenses on other borrowings	4,308	–
	7,358	9,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. INCOME TAX CREDIT

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

	2022 RMB'000	2021 RMB'000
Current tax		
Provision for the year	1,382	787
Over-provision in prior years	(1,175)	(14)
The PRC dividend withholding tax	1,022	–
	1,229	773
Deferred tax (note 36)		
Over-provision in prior years	–	(2,157)
Changes in temporary differences	(19,159)	(5,449)
	(19,159)	(7,606)
	(17,930)	(6,833)

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25% (2021: 8.25%), and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5% (2021: 16.5%).

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% (2021: 25%), except as follows. Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), a PRC subsidiary of the Group, was entitled to the preferential tax rate of 15% from years 2019 to 2025, being accredited as a High and New Technology Enterprise according to the PRC Corporate Income Tax Law and its relevant regulations. As Risecomm WFOE has renewed the qualification of High and New Technology Enterprise and approved on 24 December 2022 with an effective period of three years starting from 2022, and therefore the tax rate used to recognise deferred tax assets and liabilities as at 31 December 2022 was 15% (2021: 15%).

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.

Under the PRC Corporate Income Tax Law and its relevant regulations, 75% additional tax deduction is allowed for qualified research and development costs for year 2022 (2021: 75%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. INCOME TAX CREDIT *(Continued)*

The reconciliation between the income tax credit and the product of loss before tax multiplied by the respective applicable tax rates is as follows:

	2022 RMB'000	2021 RMB'000
Loss before tax	(137,025)	(62,086)
Tax at the respective applicable tax rates	(31,344)	(8,666)
Tax effect of preferential tax rate	439	349
Tax effect of expenses that is not deductible	8,388	461
Additional deduction for qualified research and development costs	(2,266)	(1,809)
Tax effect of other temporary differences not recognised	(601)	(503)
Tax effect of unrecognised tax losses utilised	–	(58)
Write-off of previously recognised tax losses	1,746	–
Tax effect of tax losses not recognised	5,861	5,564
Over-provision in prior years	(1,175)	(2,171)
PRC dividend withholding tax	1,022	–
Income tax credit	(17,930)	(6,833)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. LOSS FOR THE YEAR

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

	2022 RMB'000	2021 RMB'000
Amortisation of intangible assets (note 22)	24,567	22,658
Cost of inventories sold	73,040	40,201
Cost of AMR maintenance services	3,651	9,380
Cost of software license sold	27,317	64,864
Cost of post-contract customer support	3,034	2,133
Cost of construction project	4,038	86,025
Depreciation of property, plant and equipment (note 19)	2,758	4,499
Depreciation of right-of-use asset (note 20)	3,682	4,782
(Gain)/loss on disposals of property, plant and equipment (note 9)	(47)	174
COVID-19 rental concession (note 9)	(547)	–
Staff costs (note 14)	38,889	36,290
— Salaries, bonuses and allowances	33,646	31,997
— Retirement benefit scheme contributions	4,941	3,476
— Share-based payments	302	817
Research and development expenses	22,265	19,596
Auditor's remuneration	1,960	2,458
— Audit services	1,680	2,080
— Non-audit services	280	378
Allowance/(reversal) for impairment losses of financial assets, net	7,356	(10,271)
(Reversal)/provision for impairment loss on inventories	(305)	2,546
Impairment losses of goodwill (note 21)	20,718	–
Impairment losses of intangible assets (note 22)	46,706	–

Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of intangible assets and operating lease charges of approximately RMB1,810,000 (2021: RMB1,797,000) which are included in the amounts disclosed separately.

Research and development expenses includes staff costs, professional fees, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of intangible assets and materials consumed of approximately RMB14,390,000 (2021: RMB13,696,000) which are included in the amounts disclosed separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

14. EMPLOYEE BENEFITS EXPENSE

	2022 RMB'000	2021 RMB'000
Employee benefits expense:		
Salaries, bonuses and allowances	33,646	31,997
Retirement benefit scheme contributions	4,941	3,476
Share-based payments (note 42)	302	817
	38,889	36,290

(a) Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2021: one) Director whose Director's emoluments are reflected in the analysis presented in note 15(a). The emoluments of the remaining three individual (2021: four) are set out below:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	2,221	2,412
Discretionary bonuses	600	892
Retirement benefit scheme contributions	144	196
	2,965	3,500

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
HK\$ nil to HK\$1,000,000 (equivalent to RMB nil to RMB855,000)	–	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB855,001 to RMB1,283,000)	3	3
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,283,001 to RMB1,711,000)	–	–
	3	4

During the years, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office, whether directly or indirectly, subsisting at the end of the year or any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The emoluments of every Director is set out below:

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiary undertaking					Total RMB'000
	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Equity-settled share option expenses RMB'000	
Executive Directors						
Mr. Yue Jingxing	188	1,199	31	17	-	1,435
Mr. Lau Wai Leung, Alfred (note (a))	103	1,283	-	15	-	1,401
Mr. Jiang Feng (note (b))	103	368	-	48	-	519
Non-executive Directors						
Mr. Cheung Fan (note (c))	31	-	-	-	-	31
Mr. Yu Lu (note (d))	103	-	-	-	-	103
Mr. Ding Zhigang (note (e))	99	-	-	-	-	99
Mr. Sun Peng (note (h))	71	-	-	-	-	71
Independent Non-executive Directors						
Mr. Ong King Keung	205	-	-	-	-	205
Ms. Lo Wan Man	103	-	-	-	-	103
Mr. Zou Heqiang	103	-	-	-	-	103
Total for the year ended 31 December 2022	1,109	2,850	31	80	-	4,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiary undertaking					
	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Equity-settled share option expenses RMB'000	Total RMB'000
Executive Directors						
Mr. Yue Jingxing	100	1,105	31	–	–	1,236
Mr. Lau Wai Leung, Alfred (note (a))	97	471	39	14	–	621
Mr. Jiang Feng (note (b))	69	257	–	33	–	359
Mr. Tang Andong (note (i))	27	183	108	14	–	332
Non-executive Directors						
Mr. Cheung Fan (note (c))	355	–	–	–	–	355
Mr. Yu Lu (note (d))	31	–	–	–	–	31
Mr. Zhou, Francis Bingrong (note (f))	5	–	–	–	–	5
Mr. Wang Shiguang (note (g))	48	468	–	26	–	542
Ms. Pan Hong (note (j))	48	–	–	–	–	48
Independent Non-executive Directors						
Mr. Ong King Keung	199	–	–	–	–	199
Ms. Lo Wan Man	100	–	–	–	–	100
Mr. Zou Heqiang	100	–	–	–	–	100
Total for the year ended 31 December 2021	1,179	2,484	178	87	–	3,928

Notes:

- (a) Mr. Lau Wai Leung, Alfred was appointed as an Executive Director on 19 January 2021.
- (b) Mr. Jiang Feng was appointed as an Executive Director on 19 April 2021.
- (c) Mr. Cheung Fan resigned from his position as a Non-Executive Director on 22 April 2022.
- (d) Mr. Yu Lu was appointed as a Non-executive Director on 9 September 2021.
- (e) Mr. Ding Zhigang was appointed as a Non-executive Director on 13 January 2022.
- (f) Mr. Zhou, Francis Bingrong resigned as a Non-executive Director on 19 January 2021.
- (g) Mr. Wang Shiguang retired from his position as a Non-executive Director on 25 June 2021.
- (h) Mr. Sun Peng was appointed as a Non-Executive Director on 22 April 2022, and resigned from his position on 17 January 2023.
- (i) Mr. Tang Andong resigned from his position as an Executive Director on 7 April 2021.
- (j) Ms. Pan Hong retired from her position on 25 June 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office, whether directly or indirectly, subsisting at the end of the year or any time during the year.

None of the directors waived any emoluments during the year (2021: RMB nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Director's termination benefits

None of the directors of the Company received any termination benefits during the year ended 31 December 2022 (2021: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2022, the Company did not pay considerations to any third parties for making available directors' services (2021: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

As at 31 December 2022, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and the directors' connected entities (2021: None).

16. RETIREMENT BENEFIT SCHEMES CONTRIBUTIONS

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK\$1,500 per employee and vest fully with employees when contributed into the MPF Scheme.

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC.

Pursuant to the relevant laws and regulations in the People's Republic of China, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "**PRC Retirement Schemes**"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

During the years ended 31 December 2021 and 2022, the Group had no forfeited contributions under the PRC Retirement Schemes and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2021 and 2022 under the PRC Retirement Schemes and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the years ended 31 December 2022 and 2021.

18. LOSS PER SHARE

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

	2022 RMB'000	2021 RMB'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	(118,584)	(55,253)
	2022 '000	2021 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	1,793,701	1,093,887

The effect of all potential ordinary shares are anti-dilutive for the years ended 31 December 2022 and 2021 due to loss making for the years ended 31 December 2022 and 2021.

The computation of diluted loss per share did not assume the exercise of the Company's outstanding share options as the exercise price of those share options was higher than the average market price for shares for the years ended 31 December 2022 and 2021.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. 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	Total RMB'000
Cost						
At 1 January 2021	20,755	13,725	6,164	2,251	4,236	47,131
Additions	-	333	196	-	877	1,406
Disposals	-	(687)	(332)	(481)	(1,192)	(2,692)
At 31 December 2021 and 1 January 2022	20,755	13,371	6,028	1,770	3,921	45,845
Additions	-	775	124	-	1	900
Disposals	-	(295)	(27)	(117)	-	(439)
Deregistration of a subsidiary	-	-	(213)	-	-	(213)
At 31 December 2022	20,755	13,851	5,912	1,653	3,922	46,093
Accumulated depreciation						
At 1 January 2021	4,076	10,688	4,558	1,083	2,396	22,801
Charge for the year	986	1,686	795	347	685	4,499
Disposals	-	(450)	(281)	(327)	(648)	(1,706)
At 31 December 2021 and 1 January 2022	5,062	11,924	5,072	1,103	2,433	25,594
Charge for the year	986	567	390	296	519	2,758
Disposals	-	(129)	(26)	(83)	-	(238)
Deregistration of a subsidiary	-	-	(213)	-	-	(213)
At 31 December 2022	6,048	12,362	5,223	1,316	2,952	27,901
Carrying amount						
At 31 December 2022	14,707	1,489	689	337	970	18,192
At 31 December 2021	15,693	1,447	956	667	1,488	20,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. RIGHT-OF-USE ASSETS

	Leased properties	
	2022 RMB'000	2021 RMB'000
At 1 January	10,310	14,218
Addition for the year	402	893
Depreciation for the year	(3,682)	(4,782)
Exchange differences	49	3
Disposal for the year	–	(22)
At 31 December	7,079	10,310

Lease liabilities of RMB7,593,000 (2021: RMB11,022,000) are recognised with related right-of-use assets of RMB7,079,000 as at 31 December 2022 (2021: RMB10,310,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2022 RMB'000	2021 RMB'000
Depreciation expenses on right-of-use assets	3,682	4,782
Interest expense on lease liabilities (included in finance cost)	461	616
Expenses relating to short-term lease (included in selling and marketing expenses, general and administrative expenses, research and development expenses and cost of sales)	1,840	2,852
COVID-19 Related rent concessions received	(547)	–

Details of total cash outflow for leases is set out in note 43(b).

The Group has early adopted the Amendments to HKFRS 16: COVID-19 Related Rent Concessions, and applied the practical expedient introduced by the Amendments to all eligible rent concessions received by the Group during the period.

Lease arrangements of office premises were negotiated on an individual basis and contain a wide range of different terms and conditions including lease terms ranging from 2 to 5 years (2021: 2 to 5 years). In determining the lease terms and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

21. GOODWILL

	2022 RMB'000	2021 RMB'000
Cost		
At 1 January and 31 December	215,147	215,147
Accumulated impairment losses		
At 1 January	(194,429)	(194,429)
Impairment losses recognised for the year	(20,718)	–
At 31 December	(215,147)	(194,429)
Carrying amount		
At 31 December	–	20,718

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

	2022 RMB'000	2021 RMB'000
AMR and other business (note (a))	–	–
SMIA business (note (b))	–	20,718
	–	20,718

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

(a) AMR and other business

Goodwill has been fully impaired as at 31 December 2020.

For the year ended 31 December 2022, the CGU recorded operating losses amounting to RMB4,249,000 (2021: RMB11,163,000). Management has identified an impairment indicator for the carrying amount of assets allocated to the CGU, including certain property, plant and equipment, certain right-of-use assets and certain intangible assets amount to approximately RMB17,552,000, RMB4,025,000 and RMB10,323,000 respectively. The recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2021: 2.0%) which does not exceed the long-term average growth rate for the business in which the respective CGU operate. The cash flows are discounted using pre-tax discount rate of 17.28% (2021: 17.25%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to the expected timing and amount of revenue and gross profit margin to be generated from the Group's PLC based broadband AMR products for the four-year budget period, which are based on the Group's historical market share and adjusted by recent market development based on available external sources of information.

The recoverable amount exceeded the carrying amount by approximately RMB43,298,000, and therefore, no impairment charge was considered necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

21. GOODWILL *(Continued)*

(b) SMIA business

As at 31 December 2022, the recoverable amount has been determined based on value-in-use calculation. The calculation of value-in-use used cash flow projections based on financial budgets approved by the Board of Directors covering a four-year period. Cash flows beyond the four-year period are extrapolated using estimated weighted average growth rate of 2.0% (2021: 2.0%) which does not exceed the long-term average growth rate for the business in which the CGU operate. The cash flows are discounted using pre-tax discount rate of 19.83% (2021: 21.29%), which reflect specific risks relating to the relevant business. Other key assumptions for the value-in-use calculation relate to revenue growth rate and gross profit margin for the four-year budget period, which take into account the CGU's historical performance, existing backlog contracts, pipelines and the management's business development plan built upon industry trends.

There was a significant decrease in revenue and gross profit of the SMIA business segment for the year ended 31 December 2022 as compared to that of 2021 which was primarily attributable to the cessation of the construction projects and delay of the contracts awarded during the year. Given the financial performance of the SMIA business segment for the year ended 31 December 2022 had not achieved the 2022 financial budgets approved by the Board, the Board has revisited the strategic plan of the SMIA business, reassessed the sale pipeline and gross profit forecast prepared by the management of the SMIA business in light of the recent expectation of market development in the short and medium run. The carrying amount of the CGU for 2022 in relation to SMIA business is approximately RMB130,629,000 (2021: RMB185,016,000).

The carrying amount of assets of the CGU exceeded the recoverable amount by approximately RMB67,424,000. As a result, impairment losses for goodwill and intangible assets has been recorded amounting RMB20,718,000 and RMB46,706,000 during the year respectively (2021: Nil and Nil respectively). A 2.0% underperformance against forecast sales growth rates would lead to a further impairment to non-current assets of the Group of RMB39,457,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. INTANGIBLE ASSETS

	Software and others RMB'000	Capitalised development costs RMB'000	Customer relationships RMB'000	Non-compet undertakings RMB'000	Unfulfilled contracts RMB'000	Total RMB'000
Cost						
At 1 January 2021, 31 December 2021 and 1 January 2022	22,492	565	99,380	100,147	22,264	244,848
Transfer	565	(565)	-	-	-	-
Deregistration of a subsidiary	(6)	-	-	-	-	(6)
At 31 December 2022	23,051	-	99,380	100,147	22,264	244,842
Accumulated amortisation and impairment losses						
At 1 January 2021	9,590	-	32,470	38,816	22,264	103,140
Amortisation for the year	622	-	8,775	13,261	-	22,658
At 31 December 2021 and 1 January 2022	10,212	-	41,245	52,077	22,264	125,798
Amortisation for the year	2,531	-	8,775	13,261	-	24,567
Deregistration of a subsidiary	(6)	-	-	-	-	(6)
Impairment loss for the year	-	-	27,390	19,316	-	46,706
At 31 December 2022	12,737	-	77,410	84,654	22,264	197,065
Carrying amount						
At 31 December 2022	10,314	-	21,970	15,493	-	47,777
At 31 December 2021	12,280	565	58,135	48,070	-	119,050

The average remaining amortisation periods of the software and others, customer relationships, and non-compet undertakings are nil to 7 years (2021: nil to 8 years), nil to 6 years (2021: nil to 7 years), and nil to 3 years (2021: 1 to 4 years) respectively.

The Group carried out reviews of the recoverable amount of its customer relationships and non-compet undertakings in 2022, having regard to the market conditions of the Group's products. These assets are used in the Group's SMIA business segment. RMB27,390,000 impairment losses were recognised for customer relationships (2021: Nil) and RMB19,316,000 impairment losses were recognised for non-compet undertakings (2021: Nil) during the year. The recoverable amount of SMIA business is disclosed in note 21 to the consolidated financial statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. INVESTMENTS IN SUBSIDIARIES

Particulars of the Group's major subsidiaries at 31 December 2022 and 2021 are set out as follows:

Name	Place of incorporation or registration/Type of legal entity	Particular of issued share capital	Percentage of ownership interest/ voting power/profit sharing		Principal activities/ Place of operation
			2022	2021	
Directly held by the Company					
Risecomm Co. Ltd.	Cayman Islands/ Limited liability company	Ordinary shares US\$18,128.22	100%	100%	Dormant
Harvest Year Global Limited	Seychelles/Limited liability company	Ordinary shares US\$1	100%	100%	Investment holding/ Hong Kong
Prime Key Holdings Limited	Seychelles/Limited liability company	Ordinary shares US\$1	100%	100%	Investment holding/ Hong Kong
Green Harmony Limited	Seychelles/Limited liability company	Ordinary shares US\$1	100%	100%	Investment holding/ Seychelles
Indirectly held by the Company					
Risecomm (HK) Technology Co. Limited	Hong Kong/Limited liability company	Ordinary shares HK\$1	100%	100%	Trading and research and development/ Hong Kong
Risecomm (HK) Holding Co. Limited	Hong Kong/Limited liability company	Ordinary shares HK\$1	100%	100%	Investment holding/ Hong Kong
Risecomm Microelectronics (Shenzhen) Co., Ltd.*	the PRC/wholly foreign owned enterprise	Ordinary shares US\$17,500,000	100%	100%	Manufacturing and sales of AMR products/the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or registration/Type of legal entity	Particular of issued share capital	Percentage of ownership interest/ voting power/profit sharing		Principal activities/ Place of operation
			2022	2021	
Indirectly held by the Company (Continued)					
Beijing Risecomm Communication Technology Company Limited*	the PRC/Limited liability company	Ordinary shares RMB3,000,000	100%	100%	Sales and marketing/ the PRC
Wuxi Risecomm Communication Technology Company Limited*	the PRC/Limited liability company	Ordinary shares RMB3,100,000	100%	100%	Research and development/ the PRC
North Mountain Information Technology Company Limited	Hong Kong/Limited liability company	Ordinary shares HK\$10,000	100%	100%	Investment holding/ Hong Kong
North Mountain Power Technology (Beijing) Co., Ltd*	the PRC/wholly foreign owned enterprise	Ordinary shares RMB50,000,000	–	100%	Deregistered
Hongten Technology Limited	Hong Kong/Limited liability company	Ordinary shares HK\$10,000	100%	100%	Investment holding/ Hong Kong
Beijing Hongteng Weitong Technology Co.,Ltd*	the PRC/wholly foreign owned enterprise	Ordinary shares RMB32,244,307.16	100%	100%	SMIA business and construction/ the PRC
Beijing Jiangxinchuangda Technology Co.,Ltd*	the PRC/Limited liability company	Ordinary shares RMB2,000,000	100%	100%	SMIA business/ the PRC
Beijing Tongyong Chuangweishi Technology Development Co.,Ltd*	the PRC/Limited liability company	Ordinary shares RMB10,010,000	100%	100%	Dormant
Main Fullness Limited	Hong Kong/Limited liability company	Ordinary shares HK\$100	100%	–	Investment holding/ Hong Kong
Ningbo Shiquan Technology Co. Limited*	the PRC/Limited liability company	–	51%	–	Provision of vehicle rental service/ the PRC

Notes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

24. INVESTMENTS IN AN ASSOCIATE

	2022 RMB'000	2021 RMB'000
Unlisted investments:		
Share of net assets	–	379
Accumulated impairment losses	–	(379)
	–	–

Details of the Group's associate at 31 December 2022 and 2021 are as follows:

Name	Place of incorporation/ registration	Particular of issued share capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			2022	2021	
Risecomm (Beijing) Technology Company Limited.* ("Risecomm BTCL")	The PRC	RMB2,000,000	–	50%	Deregistered

Notes:

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

The Group holds 50% of the voting power of Risecomm BTCL. However, under a shareholders' agreement, the other shareholder controls the composition of the board of Directors of Risecomm BTCL and has control over Risecomm BTCL. The Directors of the Company consider that the Group does have significant influence over Risecomm BTCL and it is therefore classified as an associate of the Group.

The following table shows information on the associate that is immaterial to the Group and accounted for using the equity method in the consolidated financial statements.

	2022 RMB'000	2021 RMB'000
At 31 December:		
Carrying amounts of interests	–	–
Year ended 31 December:		
Total comprehensive loss	–	(42)

Risecomm BTCL ceased to be an associate of the Group due to Risecomm BTCL had been deregistered in August 2022. No gain or loss in deregistration of equity interests in an associate because full impairment were recognised in profit or loss in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. FINANCIAL ASSETS AT FVTOCI

	2022 RMB'000	2021 RMB'000
Unlisted equity securities	554	–
Analysed as:		
Non-current assets	554	–

The fair value of unlisted securities are based on the adjusted net assets value. All of the financial asset at FVTOCI is denominated in RMB.

Equity securities which are not held for trading and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

The Group invested RMB2,800,000 in a company incorporated in Guangdong Province, the PRC and owned 14% (2021: Nil) equity interests in that company. Due to certain contractual arrangements with the other shareholders of that company, the Group is unable to exercise significant influence over that company and the investment is classified as financial assets at FVTOCI.

26. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	35,062	25,073
Work in progress	2,572	2,420
Finished goods	15,213	13,735
	52,847	41,228
Allowance for impairment of inventories	(25,033)	(25,338)
	27,814	15,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. CONTRACT COSTS

Contract costs capitalised as at 31 December 2022 and 2021 relate to the costs to fulfil a contract with a customer. Contract costs are recognised as part of “cost of sales” in the statement of profit or loss in the period in which revenue is recognised.

The amount of capitalised contract costs recognised as at 31 December 2022 was RMB786,000 (2021: RMB786,000). The amount of capitalised contract costs is expected to be recovered within one year.

28. CONTRACT ASSETS

	2022 RMB'000	2021 RMB'000
Contract assets arising from:		
Performance under construction contracts	20,050	33,987
Less: Allowance for impairment loss	(3,421)	–
	16,629	33,987

As at 31 December 2022, all contract assets were expected to be billed within one year (2021: one year).

Allowance for impairment loss of contracts assets amounting RMB3,421,000 was recognised for the year ended 31 December 2022 (2021: Nil).

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. Additionally, the Group typically agrees 6 months to 1 year retention period for 10% of the contract sum, which is kept in contract assets until the end of the retention period as the Group's entitlement to it is conditional on the Group's work satisfactorily passing inspection.

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the year end date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	120,247	141,883
Bills receivable	64	4,351
Allowance for impairment losses of trade receivables	(60,081)	(56,977)
	60,230	89,257
Prepayments	17,038	25,609
Income tax recoverable	–	243
Other receivables	14,836	7,586
Loan receivables (note (a))	9,580	1,000
Allowance for impairment losses of other receivables	(2,918)	(2,918)
	38,536	31,520
Total trade and other receivables	98,766	120,777

Note

- (a) The amount receivables under the loan agreements are arranged at fixed interest rates of 0% to 5% per annum, which are recoverable in one year. The Group considers that those receivables remain appropriate to measure them at amortised cost.

The Group generally allows an average credit period of 180 days (2021: 180 days) for its customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

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

	2022 RMB'000	2021 RMB'000
Within 6 months	17,182	69,140
After 6 months but within 1 year	2,831	5,461
Over 1 year	40,217	14,656
	60,230	89,257

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

30. BANK AND CASH BALANCES

Bank and cash balances comprise cash held by the Group and short-term deposits with an original maturity of three months or less. The balances are mainly denominated in RMB.

The Group's restricted cash represented guarantee deposit pledged to tenderer to use as performance bond and to secure the submission of tender. The pledged as at 31 December 2022 amounted to RMB2,619,000 (2021: RMB104,000).

As at 31 December 2022, the bank and cash balances of the Group denominated in RMB amounted to RMB84,255,000 (2021: RMB89,189,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

31. SHARE CAPITAL

	2022		2021	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.0001 each	10,000,000	1,000	10,000,000	1,000
At 31 December				
Ordinary shares, issued and fully paid:				
At 1 January	1,775,909	178	986,619	99
Share subscription (note (a) and (b))	81,180	8	197,320	20
Rights issue (note (c))	–	–	591,970	59
At 31 December	1,857,089	186	1,775,909	178
RMB equivalent (RMB'000)		158		151

Notes:

- On 12 October 2022, 81,180,000 ordinary shares at a price of HK\$0.180 were issued to 2 subscribers respectively according to the subscription agreements. The Company had raised an approximately HK\$14,612,000 (equivalent to RMB13,236,000), before net of expenses.
- On 12 July 2021, 88,660,000 and 108,660,000 ordinary shares at a price of HK\$0.170 were issued to 2 subscribers respectively according to the subscription agreements. The Company had raised an approximately HK\$33,544,000 (equivalent to RMB27,753,000), before net of expenses.
- On 17 December 2021, the Company had raised an approximately HK\$123,100,000 (equivalent to RMB100,437,000), before net of expenses by way of the right issue of 591,969,535 rights shares on the basis of one rights share for every two share at the subscription price of HK\$0.208 per share.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31. SHARE CAPITAL *(Continued)*

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by total equity. Net debt comprises the acquisition consideration payables, convertible bonds, lease liabilities and borrowings. Total equity comprises all components of equity (i.e. share capital, retained profits and other reserves).

The debt-to-equity ratios at 31 December 2022 and at 31 December 2021 were as follows:

	2022	2021
	RMB'000	RMB'000
Total debt	132,804	133,516
Less: cash and cash equivalents	(86,652)	(91,705)
Net debt	46,152	41,811
Total equity	74,381	193,799
Debt-to-equity ratio	62.0%	21.6%

The increase in the debt-to-equity ratio during 2022 resulted primarily from increase of total debt due to the addition of borrowings and decrease of total equity arising from the loss for the year.

The externally imposed capital requirement for the Group is to have a public float of at least 25% of the shares in order to maintain its listing on the Stock Exchange.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2022, 56.7% (2021: 42.3%) of the shares were in public hands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2022 RMB'000	2021 RMB'000
Non-current assets		
Investments in subsidiaries	134,471	205,419
Current assets		
Deposits and prepayments	11	213
Amounts due from subsidiaries	53,371	59,477
Cash and cash equivalents	199	701
	53,581	60,391
TOTAL ASSETS	188,052	265,810
Capital and reserves		
Share capital	158	151
Reserves	56,354	138,109
	56,512	138,260
Non-current liabilities		
Borrowings	2,683	4,904
Current liabilities		
Acquisition consideration payables	–	–
Convertible bonds	–	117,590
Borrowings	121,528	–
Other payables	7,329	5,056
	128,857	122,646
TOTAL EQUITY AND LIABILITIES	188,052	265,810

Approved by the Board of Directors on 29 March 2023 and are signed on its behalf by:

Yue Jingxing
Director

Lau Wai Leung, Alfred
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000 (note 33(b)(i))	Capital reserve RMB'000 (note 33(b)(ii))	Exchange reserve RMB'000 (note 33(b)(iv))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	231,362	160,523	19,480	(382,739)	28,626
Total comprehensive income for the year	–	–	5,934	(23,690)	(17,756)
Equity-settled share-based payments (note 42)	–	817	–	–	817
Share option forfeited (note 42)	–	(1,774)	–	1,774	–
Share subscription (note 31(b))	27,736	–	–	–	27,736
Less: share issue expense	(134)	–	–	–	(134)
Rights issue (note 31(c))	100,389	–	–	–	100,389
Less: rights issue expense	(1,569)	–	–	–	(1,569)
At 31 December 2021 and 1 January 2022	357,784	159,566	25,414	(404,655)	138,109
Total comprehensive income for the year	–	–	(6,634)	(88,599)	(95,233)
Equity-settled share-based payments (note 42)	–	302	–	–	302
Share subscription (note 31(a))	13,229	–	–	–	13,229
Less: share issue expense	(53)	–	–	–	(53)
At 31 December 2022	370,960	159,868	18,780	(493,254)	56,354

33. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

33. RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(ii) Capital reserve

Capital reserve comprised the followings:

- the fair value of unexercised share options (see note 42);
- the difference between fair value of the preference shares and the warrant and the issued amount, upon the waiver of the terms of convertible redeemable preference shares and the warrant in March 2014, and capitalization of the outstanding cumulative dividends payable due to preference shareholders upon waiver in March 2014, and;
- upon completion of a group reorganization in February 2016, the share premium of Risecomm Co. Ltd., which was the then holding company of the Group, was deducted from the share premium presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve and retained earnings;
- the difference between the cost of the additional investment and the carrying amount of the net assets acquired at 10 August 2018 (the date of exchange) when acquiring the non-controlling interest in a subsidiary, Changsha Risecomm Communication Technology Company Limited.

(iii) Statutory reserve

Pursuant to the relevant laws and regulations for business enterprises in the PRC, a portion of the profits of the entities which are registered in the PRC has been transferred to the statutory reserve which is restricted as to use. When the balance of such reserve reaches 50% of the capital of that entity, any further appropriation is optional. The statutory surplus reserve can be used to make up for prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(e) to the consolidated financial statements.

(v) FVTOCI reserve

FVTOCI reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(n) to the consolidated financial statements.

34. DEFERRED INCOME

Deferred income represents conditional government subsidies for encouragement of research and development projects, which is recognised in profit or loss in accordance with the accounting policy adopted for government grants set out in note 4(z).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

35. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Within 1 year	4,400	4,225	4,122	3,774
Between 1 and 2 years	2,627	4,158	2,527	3,891
Between 2 and 5 years	961	3,472	944	3,357
	7,988	11,855	7,593	11,022
Less: total future interest expenses	(395)	(833)	N/A	N/A
Present value of lease liabilities	7,593	11,022	7,593	11,022
Less: Amount due for settlement within 12 months (shown under current liabilities)			(4,122)	(3,774)
Amount due for settlement after 12 months			3,471	7,248

The weighted average incremental borrowing rate applied was 4.75% (2021: 4.75%).

The commencement date of the respective lease liabilities are 1 September 2019, 16 August 2020, 1 September 2021 and 18 July 2022 respectively. The maturity date of the respective lease liabilities are 31 August 2024, 15 August 2025, 31 August 2023 and 17 July 2024 respectively.

The carrying amounts of lease liabilities are mainly denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

36. DEFERRED TAX

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

Deferred tax arising from:	Tax losses RMB'000	Impairment losses on receivables and inventories RMB'000	Unrealised profit due to Intra-group transactions RMB'000	Accrued expense and other payables RMB'000	Deferred income RMB'000	Intangible assets RMB'000	Intangible assets identified in business combination RMB'000	Total RMB'000
At 1 January 2021	15,153	18,273	304	1,737	448	(1,601)	(32,061)	2,253
Credited/(charged) to profit or loss	8,024	(4,507)	76	(1,336)	(204)	44	5,509	7,606
At 31 December 2021 and 1 January 2022	23,177	13,766	380	401	244	(1,557)	(26,552)	9,859
Credited/(charged) to profit or loss	(1,746)	2,538	233	734	(101)	315	17,186	19,159
Derecognition of the deregistered subsidiary	(5,155)	-	-	-	-	-	-	(5,155)
At 31 December 2022	16,276	16,304	613	1,135	143	(1,242)	(9,366)	23,863

The following is the analysis of the deferred tax balances (after offset) for the consolidated statement of financial position purposes:

	2022 RMB'000	2021 RMB'000
Deferred tax assets	34,472	37,967
Deferred tax liabilities	(10,609)	(28,108)
	23,863	9,859

At the end of the reporting period, the Group has estimated unused tax losses of approximately RMB233,558,000 (2021: RMB244,181,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB16,277,000 (2021: RMB23,177,000) of such losses. It is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction before they expire, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB152,704,000 (2021: RMB131,144,000) of certain subsidiaries. For the year ended 31 December 2022, included in unrecognised tax losses are losses of approximately RMB17,194,000, RMB26,586,000, RMB504,000, RMB4,016,000, RMB4,029,000, RMB1,000, RMB6,463,000 and RMB33,042,000 that will expire in 2032, 2031, 2030, 2027, 2026, 2025, 2024 and 2023 respectively. Other tax losses may be carried forward indefinitely.

Under the Corporate Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries of RMB4,709,000 as at 31 December 2022 (2021: RMB2,113,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank loan	1,000	–
Other borrowings	124,211	4,904
	125,211	4,904

The borrowings are repayable as follows:

	2022 RMB'000	2021 RMB'000
Within one year	122,528	–
More than one year, but not exceeding two years	2,683	4,904
	125,211	4,904
Less: Amount due for settlement within 12 months (shown under current liabilities)	(122,528)	–
Amount due for settlement after 12 months	2,683	4,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. BORROWINGS (Continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Bank loans RMB'000	Other borrowings RMB'000	Total borrowings RMB'000
As at 31 December 2022			
RMB	1,000	–	1,000
HK\$	–	124,211	124,211
	1,000	124,211	125,211
As at 31 December 2021			
RMB	–	4,904	4,904

The average interest rates at 31 December were as follows:

	2022	2021
Bank loan	3.95%	N/A
Other borrowings	0%–5%	4%

Bank loan is arranged at fixed interest rates of 3.95% per annum, which is repayable in one year, and expose the Group to fair value interest rate risk. Other borrowings are arranged at fixed interest rates of 0% to 5% per annum and expose the Group to fair value interest rate risk.

The directors estimate the fair value of the loan granted for the refinancing of the redemption of convertible bonds, by discounting their future cash flows at the market rate, as at 31 December 2022, to be as follow:

	2022 RMB'000	2021 RMB'000
Other borrowings	112,818	–

At 31 December 2022, the Group had RMB2,680,000 (2021: Nil) of available undrawn borrowing facilities.

As at 31 December 2022, the Group had no charge on assets (2021: Nil). Pursuant to a repayment agreement entered into by the Company and the bondholder on 2 September 2022 for refinancing the redemption of the convertible bonds, the entire issued shares of two subsidiaries of the Company, namely Risecomm Co. Ltd. and Risecomm (HK) Technology Co. Limited, shall be pledged as security for borrowings of approximately RMB112,818,000 on or before 31 January 2023. As at the date of this report the relevant procedures for such share charges are still in process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables (note (a))	93,427	85,447
Product warranty provision (note (b))	1,037	557
Other payables and accruals	19,048	14,947
	113,512	100,951

(a) Trade payables

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

	2022 RMB'000	2021 RMB'000
Within 3 months	39,280	59,348
After 3 months but within 6 months	20,802	2,067
After 6 months but within 1 year	2,890	1,706
Over 1 year but within 2 years	11,949	19,051
Over 2 years	18,506	3,275
	93,427	85,447

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

(b) Product warranty provision

	2022 RMB'000	2021 RMB'000
Balance at 1 January	557	684
Additional provisions made	846	382
Provision utilised	(4)	(377)
Provision reversed	(362)	(132)
Balance at 31 December	1,037	557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39. CONTRACT LIABILITIES

Contract liabilities

	2022 RMB'000	2021 RMB'000
Billings in advance of performance obligation		
— Billings in advance of performance (note (a))	4,477	8,856
— Deferred post-contact customer support income (note (b))	1,730	1,730
	6,207	10,586

Movements in contract liabilities:

	2022 RMB'000	2021 RMB'000
Balance at 1 January	10,586	31,133
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(7,223)	(31,133)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	1,114	8,856
Increase in contract liabilities as a result of billing in advance of post-contract support activities	1,730	1,730
Balance at 31 December	6,207	10,586

No billings in advance of performance received that is expected to be recognised as income after more than one year (2021: Nil).

Notes:

- (a) When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised when control over a product transferred to the customers. The Group typically receives a deposit on acceptance of orders from customers, the amount of the deposit, if any, is negotiated on a case by case basis with customers.
- (b) Deferred post-contract customer support income primarily consists of unamortised revenue from sales of software license, where there is still an implied service performance obligation to be provided by the Group over time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

40. ACQUISITION CONSIDERATION PAYABLES

	2022 RMB'000	2021 RMB'000
Acquisition of Green Harmony		
— Promissory note payable	—	—
	—	—

Acquisition of Green Harmony

	2022 RMB'000	2021 RMB'000
Balance at 1 January	—	120,520
Principal redemption of the “First Promissory note” (Note (a))	—	(16,352)
Principal redemption of the “Second Promissory note” (Note (b))	—	(100,448)
Payment for interest on promissory notes	—	(8,998)
Finance cost recognised in the profit or loss	—	8,793
Foreign currency exchange adjustment	—	(3,515)
Balance at 31 December	—	—

Notes:

- (a) According to the sales and purchase agreement (the “SPA”), the Group issued an unsecured promissory note (the “**First Promissory Note**”) with a coupon interest rate of 8% per annum and payment due date of 12 months from the issuance date of 15 August 2018 (the “**GH Acquisition Date**”) (i.e. 14 August 2020) to Sailen IOT (formerly known as Tiger Resort, Leisure and Entertainment, Inc.). The face value of the “First Promissory Note” on the GH Acquisition Date is HK\$200,000,000. During the year ended 31 December 2019, the Group partially redeemed HK\$180,000,000 principal (equivalent to RMB157,776,000) of the First Promissory Note by cash. Interest paid for the redeemed principal was calculated for the period from 15 August 2018 to actual payment date in 2019.

On 25 November 2019, the Group has entered into a supplemental agreement to the SPA with Sailen IOT, the vendor of Green Harmony, based on which, the payment due date of the remaining HK\$20,000,000 principal of the First Promissory Note was extended to 14 August 2021. Coupon interest rate on the remaining principal balance was revised to 4% per annum. As at 31 December 2020, the outstanding principal amount of the First Promissory Note was HK\$20,000,000.

On 26 July 2021, the Group fully redeemed HK\$20,000,000 principal (equivalent to RMB16,352,000) of the First Promissory Note by cash together with interest paid by amounting HK\$1,346,000 (equivalent to RMB1,116,000).

- (b) According to the SPA, the Group was required to issue another unsecured promissory note (the “**Second Promissory Note**”) on or before 31 December 2018 to Sailen IOT, with a coupon interest rate of 8% per annum payable on an annual basis with a term of 2 years. The maximum face value of the “Second Promissory Note” from the issuance date was HK\$200,000,000. The Second Promissory note was issued on 31 December 2018 and with an original payment due date on 30 December 2020.

On 29 August 2019, the face value of the Second Promissory Note has been agreed by the Company and the vendor of Green Harmony as HK\$123,000,000 based on actual financial performance of Green Harmony for the year ended 31 December 2018. As at 31 December 2020, the outstanding principal amount of the Second Promissory Note was HK\$122,857,000.

According to the supplemental agreement signed on 25 November 2019, the payment due date of the Second Promissory Note was extended to 30 December 2021 and was therefore reclassified to non-current liabilities. Coupon interest rate on the principal amount was revised to 4% per annum.

On 26 July 2021, the Group partially redeemed HK\$11,999,000 principal (equivalent to RMB9,810,000) of the Second Promissory Note by cash.

On 20 December 2021, the Group early settled the remaining principal amount of Second Promissory Note by HK\$110,859,000 (equivalent to approximately RMB90,638,000) and settled the interest payable on 20 December 2021 in an aggregate amount of approximately HK\$9,501,000 (equivalent to RMB7,882,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

41. CONVERTIBLE BONDS

	2022 RMB'000	2021 RMB'000
Balance at 1 January	117,590	119,076
Payment for interest on convertible bonds	(5,116)	(4,954)
Redemption upon maturity	(119,612)	–
Re-measurement on convertible bonds	(1,375)	6,916
Foreign currency exchange adjustment	8,513	(3,448)
Balance at 31 December	–	117,590

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

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

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

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

As at 2 September 2022, the Group has fully redeemed its convertible bonds at their principal amounts of HK\$150,000,000 by refinancing through a loan from the bondholder. The interest accrued thereon from the last interest payment date up to the maturity date has also been fully paid.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 25 August 2016 and 3 September 2018 and, unless otherwise cancelled or amended, will remain in force for 10 and 8 years from that date respectively.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer, when applicable.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. SHARE-BASED PAYMENTS

Equity-settled share option scheme *(Continued)*

(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 1 February 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 21 April 2011	200,000		10 years
— On 26 March 2014	503,858		10 years
— On 3 September 2018	1,500,000	75% of total shares vested immediately on grant date, the rest vested in 3 equal yearly instalments from the second year anniversary of the grant date	8 years
— On 3 September 2018	14,000,000	Vested in 3 equal yearly instalments from the second year anniversary of the grant date	8 years
Options granted to non-executive directors			
— On 1 February 2007	200,000	Vested immediately on grant date	10 years
— On 26 March 2014	26,799		10 years
Options granted to SAIF			
— On 21 April 2011	168,666	Vested immediately on grant date	10 years
— On 26 March 2014	136,000		10 years
Total share options granted	17,466,657		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. SHARE-BASED PAYMENTS *(Continued)*

Equity-settled share option scheme *(Continued)*

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

	At 31 December 2022		At 31 December 2021	
	Weighted Average exercise price	Number of options	Weighted Average exercise price	Number of options
Outstanding at the beginning of the year	USD0.000302	856,555	USD0.0003	863,587
Adjustments due to Rights Issue	–	–	USD0.0003	(7,032)
Outstanding at the beginning of the year	HK\$1.724	6,843,811	HK\$1.71	9,830,000
Forfeited during the year	HK\$1.724	–	HK\$1.71	(2,930,000)
Adjustments due to Rights Issue	HK\$1.724	–	HK\$1.71	(56,189)
Outstanding at the end of the year	USD0.000302	856,555	USD0.000302	856,555
Outstanding at the end of the year	HK\$1.724	6,843,811	HK\$1.724	6,843,811
Exercisable at the end of the year	USD0.000302	856,555	USD0.000302	856,555
Exercisable at the end of the year	HK\$1.724	6,843,811	HK\$1.724	4,562,540

The options outstanding at 31 December 2022 had an exercise price of USD0.000302 or HK\$1.724 (2021: USD0.000302 or HK\$1.724) and a weighted average remaining contractual life of 3.27 years (2021: 4.27 years).

No (2021: 2,930,000) share options have been forfeited during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

42. SHARE-BASED PAYMENTS *(Continued)*

Equity-settled share option scheme *(Continued)*

(c) Fair value of share options and assumptions

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

	February 2007	Share options issued in		
		April 2011	March 2014	September 2018
Fair value of share options and assumptions				
Fair value at measurement date	USD746,428	USD420,228	USD809,779	HK\$13,574,844
Share price	USD0.80	USD1.14	USD1.23	HK\$1.71
Exercise price (note)	USD0.01	USD0.01	HK\$0.01	HK\$1.71
Expected volatility	51.90%	50.15%	46.15%	58.25%
Option life	10 years	10 years	10 years	8 years
Suboptimal exercise factor	2.86 to 3.3422	2.86 to 3.3422	2.86 to 3.3422	2.86
Expected dividend yield	0%	0%	0%	0.95%
Risk-free interest rate	4.14%	2.72%	2.29%	2.15%

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

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

Note:

The exercise price of the tranches of share options granted in February 2007, April 2011 and March 2014 was changed to USD0.0003 per share upon a capitalisation issue prior to the Company's Initial Public Offering in June 2017, and was further changed to USD0.000302 per share upon the adjustments as a result of Rights Issue during the year ended 31 December 2021.

The exercise price of the tranches of share options granted in September 2018 was changed to HK\$1.724 per share upon the adjustments as a result of Rights Issue during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Deregistration of a subsidiary

During the year ended 31 December 2022, a subsidiary of the Group in AMR and other business segment was deregistered.

Assets and liabilities as the date of deregistration are as follows:

	RMB'000
Deferred tax assets	5,155
Accounts and other receivables	15
Bank and cash balances	1
Account and other payables	(12)
Tax payables	(11)
	5,148
Loss on deregistration of a subsidiary	(5,148)
Total consideration	–
Consideration satisfied by	
Cash	–
Net cash outflow arising on deregistration:	
Cash consideration received	–
Cash and cash equivalents deregistered of	(1)
	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(b) Reconciliation of liabilities arising from financing activities

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

	Borrowings (note 37) RMB'000	Lease liabilities (note 35) RMB'000	Convertible bonds (note 41) RMB'000	Total RMB'000
At 1 January 2022	4,904	11,022	117,590	133,516
Changes from cash flows:				
Payment for interest	(2,589)	-	(5,116)	(7,705)
Borrowings raised	6,147	-	-	6,147
Repayment of borrowings	(13,567)	-	-	(13,567)
Capital element of lease rentals paid	-	(3,904)	-	(3,904)
Interest element of lease rentals paid	-	(461)	-	(461)
Total changes from cash flows	(10,009)	(4,365)	(5,116)	(19,490)
Other changes:				
Increase in lease liabilities from entering into new leases during the year	-	402	-	402
Interest expense	6,897	461	-	7,358
Changes in fair value of convertible bonds	-	-	(1,375)	(1,375)
Redemption of convertible bonds through refinancing	119,612	-	(119,612)	-
Foreign currency exchange adjustments	3,807	73	8,513	12,393
Total other changes	130,316	936	(112,474)	18,778
At 31 December 2022	125,211	7,593	-	132,804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Borrowings (note 37) RMB'000	Lease liabilities (note 35) RMB'000	Acquisition consideration payable (note 40) RMB'000	Convertible bonds (note 41) RMB'000	Total RMB'000
At 1 January 2021	–	14,726	120,520	119,076	254,322
Changes from cash flows:					
Payment for interest	–	–	(8,998)	(4,954)	(13,952)
Payment for principal on acquisition consideration payable	–	–	(116,800)	–	(116,800)
Borrowings raised	4,741	–	–	–	4,741
Capital element of lease rentals paid	–	(4,552)	–	–	(4,552)
Interest element of lease rentals paid	–	(616)	–	–	(616)
Total changes from cash flows	4,741	(5,168)	(125,798)	(4,954)	(131,179)
Other changes:					
Finance cost of acquisition consideration payable recognised in the profit or loss	–	–	8,793	–	8,793
Increase in lease liabilities from entering into new leases during the year	–	893	–	–	893
Interest expense	78	616	–	–	694
Changes in fair value of convertible bonds	–	–	–	6,916	6,916
Foreign currency exchange adjustments	85	(45)	(3,515)	(3,448)	(6,923)
Total other changes	163	1,464	5,278	3,468	10,373
At 31 December 2021	4,904	11,022	–	117,590	133,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

	2022 RMB'000	2021 RMB'000
Within operating cash flows	1,754	3,468
Within financing cash flows	3,904	4,552
	5,658	8,020

These amounts relate to the lease rental paid.

(d) Major non-cash transactions

During the year ended 31 December 2022, the Group redeemed the convertible bonds in full at their principal amounts of HK\$150,000,000 (equivalent to RMB131,715,000) by refinancing through a loan from the bondholder and its fair value was HK\$136,217,000 (equivalent to RMB119,612,000).

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group regularly entered into short-term lease for business office. As at 31 December 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 20.

The Group as lessor

Operating leases relate to property, plant and equipment owned by the Group with lease terms of 2 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its options to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Minimum lease payments receivable on lease are as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	182	405
Between 1 and 2 years	–	133
Total	182	538

The following table presents the amounts reported in profit or loss:

	2022 RMB'000	2021 RMB'000
Lease income on operating leases	583	493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

45. CONTINGENT LIABILITY

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: RMB nil).

46. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	Note	2022 RMB'000	2021 RMB'000
Capital contribution to:			
Company in Guangdong Province, PRC	(a)	–	2,800
Intangible assets	(b)	1,830	–
		1,830	2,800

Note:

- (a) A subsidiary of the Company entered into an agreement, pursuant to which all parties have agreed to establish a company in Guangdong Province, the PRC, which principally engages in the AMR and other business. The registered capital of the company is RMB20,000,000, as at 31 December 2021, the Group made RMB2,800,000 capital injection for the year ended 31 December 2022. No unpaid capital commitment is remained outstanding.
- (b) A subsidiary of the Company entered into an agreement to acquire a management software system amounted to RMB6,000,000 as at 31 December 2022. The Group prepaid RMB4,170,000 in advance and RMB1,830,000 remained outstanding,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

47. RELATED PARTY TRANSACTIONS

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

Related party transactions

	2022 RMB'000	2021 RMB'000
Office premises rental expenses paid to Wang Shiguang (note)	–	362
	–	362

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

As at 31 December 2022, the Group had Nil balance with related parties (2021: Nil).

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

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	8,588	7,853
Post-employee benefits	292	313
	8,880	8,166

48. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2022 and up to the date of this report.

FIVE-YEAR FINANCIAL SUMMARY

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

FINANCIAL HIGHLIGHTS

	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	475,793	218,575	212,734	248,154	149,851
Gross profit	159,534	64,775	33,534	43,005	39,076
Net profit/(loss)	4,195	(236,813)	(126,034)	(55,253)	(119,095)
Profit/(loss) attributable to equity shareholders of the Company	4,204	(236,813)	(126,034)	(55,253)	(118,584)
Total assets	1,058,857	618,525	518,349	471,545	341,340
Total liabilities	658,071	393,380	404,008	277,746	266,959
	400,786	225,145	114,341	193,799	74,381
Equity attributable to:					
— Equity shareholders of the Company	400,786	225,145	114,341	193,799	74,892
— Non-controlling interests	—	—	—	—	(511)
	400,786	225,145	114,341	193,799	74,381
Gross profit margin ¹	33.5%	29.6%	15.8%	17.3%	26.1%
Net profit margin ²	0.9%	(108.3)%	(59.2)%	(22.3)%	(79.5)%
Current ratio ³	1.55	3.21	0.79	1.12	0.94
Quick ratio ⁴	1.46	2.95	0.73	1.05	0.82
Net debt to equity ratio ⁵	34.4%	48.0%	116.0%	21.6%	62.0%

1. Gross profit margin is calculated by dividing gross profit by revenue.

2. Net profit margin is calculated by dividing net profit by revenue.

3. Current ratio is calculated by dividing total current assets by total current liabilities.

4. Quick ratio is calculated by dividing total current assets less inventories by total current liabilities.

5. Net debt to equity ratio is calculated by dividing interest-bearing liabilities less cash and equivalents by total equity.