



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



2019
INTERIM REPORT

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Yue Jingxing
Mr. Lau Wai Leung, Alfred (redesignated as executive director on January 21, 2019)
Mr. Zhang Youyun (resigned on July 31, 2019)
Mr. Tang Andong (appointed on July 31, 2019)

NON-EXECUTIVE DIRECTORS

Mr. Cheung Fan (*Chairman*)
(redesignated as Chairman on June 10, 2019)
Mr. Wang Shiguang
Mr. Zhou, Francis Bingrong
(redesignated as non-executive director on January 8, 2019 and resigned on June 10, 2019)
Mr. Yang Luokui (appointed on June 10, 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ong King Keung
Mr. Chen Yong (retired on May 23, 2019)
Mr. Pan Song (retired on May 23, 2019)
Ms. Lo Wan Man (appointed on May 29, 2019)
Mr. Zou Heqiang (appointed on May 29, 2019)

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

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

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

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

AUDITOR

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Central, Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Skyworth Building C501
Hi-tech Industrial Park
Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7/F., The Wellington
198 Wellington Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.risecomm.com.cn

STOCK CODE

1679

Management Discussion and Analysis

MARKET REVIEW

With the continuous construction and ongoing improvement on the Strong Smart Grid (堅強智能電網) and the introduction of the concept of "Ubiquitous Power Internet Of Things" (泛在電力物聯網) by State Grid Corporation of China ("**State Grid**"), State Grid formally adopted a new unified industry standard (the "**New Standard**") for broadband Power Line Communication ("**PLC**") in mid-2017 and then continuously revisited the technical specifications by extending two more frequency bands within the existing communication protocols in July 2018 to reach a further enhancement in the New Standard (the "**Enhanced New Standard**"). Due to the continuous improvements made on the unified industry standard, a temporary slow-down in the procurement of smart meters conducted by State Grid was resulted and this hampered the overall industry during 2017 and 2018, notwithstanding an increase in the bidding volume of State Grid's centralised biddings on smart meters and other terminals to approximately 52.8 million units in 2018 (2017: 45.6 million units). The market expected mass procurement of the broadband PLC products by State Grid shall commence in 2019.

In the Group's automated meter reading ("**AMR**") and other business segment, the competition landscape has been changing as more state-owned enterprises ("**SOE**") and sizeable technology-based companies tapped in the chipsets market as a result of the supportive direction conducted by the Chinese government for the promotion of national self-developed chipsets with an aim to protect the national interests and to compete internationally under current Sino-American trade tension. Therefore, given the intense PLC market competition, it is foreseeable that a portion of the PLC market shares will be retained by SOE, in general. Hence, the competition among domestic PLC market participants are even more intense in the upcoming years although the overall market demand in PLC remains strong and promising. The increase in market competition may potentially reduce the market share of the Group's PLC product in the State Grid and adversely affect financial performance of the Group's AMR and other business segment.

On the other hand, during the six months ended June 30, 2019 ("**Period**") under review, the Group's Smart Manufacturing & Industrial Automation ("**SMIA**") business segment has been continuing in exploring the field of industrial automation systems by leveraging its core technology competency, particularly in the area of maintenance and safety integrity system ("**MSI**") for the petroleum and petrochemicals industry. According to a market report "2018 China Intelligent Manufacturing Development Annual Report" (2018 中國智慧製造發展年度報告) released by China Center for Information Industry Development (中國電子資訊產業發展研究院), the market size of China intelligent manufacturing system solutions reached RMB156 billion in 2018, while further expecting to exceed RMB238 billion by 2020. This is a tremendous market which allows the Group to explore in various aspects in the smart manufacturing area, contributing a positive benefit to the Group's operations.

BUSINESS REVIEW

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

Secondly, upon the acquisition of Green Harmony Limited ("**Green Harmony**") in August 2018, the Group expanded its business and engaged in SMIA business where the Group offered software licenses, production safety products as well as provision of software post-contract customer support services applied in the area of MSI in the petroleum and petrochemicals industry.

Management Discussion and Analysis *(continued)*

During the Period under review, the Group recorded revenue of approximately RMB89.6 million (for the corresponding period in 2018: approximately RMB174.4 million), representing a decrease of 48.6%.

The Group's AMR and other business segment recorded a revenue of approximately RMB66.1 million (for the corresponding period in 2018: approximately RMB174.4 million), representing a decrease of approximately 62.1%. Revenue from AMR and other business segment for the Period under review accounted for approximately 73.8% (for the corresponding period in 2018: 100.0%) of the Group's total revenue. A significant decrease in revenue from AMR and other business segment for the Period under review was mainly due to a significant decrease in sales of AMR products to customers under State Grid during the Period under review as compared to that of the corresponding period in 2018 which was attributable to: (a) a decrease in demand for the Group's narrowband AMR products by State Grid as well as (b) an unexpected further delay in debut of the Group's PLC based broadband AMR product. Such unexpected further delay was a result of the uncertainty of the testing and processing time required for the final approval conducted by the State Grid on the Group's PLC based broadband AMR product, of which it takes an average of three to six months' time, but may vary case by case. Based on the Directors' best estimate, the Group's PLC based broadband AMR product may pass the final approval process in the second half of 2019 and that the Directors expect an official launch of these products in the State Grid market by the end of 2019.

Should the Group's PLC based broadband AMR product not pass through the final approval process run by the State Grid in the year 2019, the Group may not be able to catch up the expected mass procurement of PLC based broadband AMR products from the upgrade of AMR system conducted by the State Grid in year 2019. If this happens, the Group may immediately lose a significant portion of market share and thus, this will significantly affect the Group's business and operation strategy as well as the financial performance of the AMR and other business of the Group in the short and long run and that a significant impairment of the Goodwill and other intangible assets associated with the AMR and other business may be required.

During the Period under review, the Group's SMIA business segment recorded a revenue of approximately RMB23.5 million (for the corresponding period in 2018: N/A) which accounted for approximately 26.2% (for the corresponding period in 2018: N/A) of the Group's total revenue. As of June 30, 2019, the Group's SMIA business secured backlog contracts with aggregated outstanding sales value of not less than RMB200 million in relation to sales of production safety equipment and the provision of a series of design and engineering software for establishing equipment management system and industrial internet of things, as well as the provision of maintenance services for such software. The duration of revenue recognition of the backlog contracts ranged from one year to five years.

Due to a significant decrease in the Group's revenue during the Period under review, the Group experienced a significant increase in loss attributable to the equity shareholders of the Company from approximately RMB9.2 million in the corresponding period in 2018 to approximately RMB40.8 million for the Period under review.

The significant increase in loss attributable to the equity shareholders of the Company, apart from the direct effect of significant decrease in revenue from the AMR and other business segment, was then mainly attributable to a significant increase in general and administrative expenses for the Period under review as compared to that of the corresponding period in 2018 which was primarily attributable to (a) significant charge for the amortisation of intangible assets arising from the acquisition of Green Harmony where the Group did not incur respective amortisation expenses for the corresponding period in 2018, and; (b) an increase in impairment loss on trade receivables which were long aged and considered impaired.

Management Discussion and Analysis *(continued)*

RESEARCH AND DEVELOPMENT

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

The Group had been actively participating in the discussion and formulation of the technical standard for broadband PLC for State Grids for several years whereas the Group heavily invested in the research and development project in relation to the Group's PLC based broadband AMR product to be applied in the State Grid. As of June 30, 2019, the Group's PLC based broadband AMR product is under the final testing and approval stage run by the respective departments of State Grid for approving the design and development of the Group's broadband system-on-chip ICs and related AMR products. The testing and processing time for the final approval run by the State Grid takes an average of three to six months' time, but may vary case by case. As of the date of this report, the Group had not yet received confirmation from the respective department of State Grid regarding passing the final approval process.

During the Period under review, the Group also expanded the technology development of the SMIA business through cooperation with a professional software development company to develop an application program interface which aimed to provide an integrated solution for a visual integrated management platform used in the intelligent factory.

As of June 30, 2019, the research and development team of the Group consisted of 86 employees (as of December 31, 2018: 101 employees), representing approximately 33% (as of December 31, 2018: approximately 28%) of the Group's total workforce, specialising in PLC IC design and product development for AMR and other applications as well as software development and application for the MSI for the petroleum and petrochemicals industry.

As of June 30, 2019, the Group had successfully developed a significant intellectual property portfolio, comprising 16 patents, 104 computer software copyrights and 8 IC layout designs registered, with 9 patents pending registration in the relevant jurisdictions, signifying the Group's achievements in research and development of the PLC technology and MSI for the petroleum and petrochemicals industry.

Management Discussion and Analysis *(continued)*

FINANCIAL REVIEW

Revenue

Revenue decreased from approximately RMB174.4 million for the corresponding period in 2018 to approximately RMB89.6 million for the Period under review, or by approximately 48.6%.

Revenue derived from AMR and other business segment of the Group for Period under review amounted to approximately RMB66.1 million (for the corresponding period in 2018: approximately RMB174.4 million). The significant decrease in revenue from AMR and other business segment was primarily attributable to a significant decrease in revenue from sales of AMR products to customers under the centralised biddings conducted by State Grid for Period under review as compared to that of the corresponding period in 2018. The decrease in revenue derived from State Grid was due to (a) a significant decrease in demand for the Group's PLC based narrowband AMR products under State Grid due to the deployment of upgraded AMR system by State Grid; and, (b) an unexpected further delay in debut of the Group's PLC based broadband AMR products, as mentioned above in the "Business Review". Further, during the Period under review, the Group strategically reduced the scale of certain trading sales and local biddings in the State Grid and China Southern Power Grid Co., Ltd. ("**Southern Grid**") as compared to that of the corresponding period in 2018 after reviewing the current working capital structure and the short term needs of financial resources.

Revenue derived from SMIA business segment of the Group for Period under review amounted to approximately RMB23.5 million (for the corresponding period in 2018: N/A).

Gross profit

Gross profit decreased by approximately 56.0% to approximately RMB20.8 million for the Period under review from approximately RMB47.2 million for the corresponding period in 2018.

Gross profit margin was approximately 23.2% for the Period under review and has decreased from approximately 27.1% for the corresponding period in 2018, representing a decrease of gross profit margin by 3.9 percentage points. The reason for decrease in gross profit margin was attributable to a significant decrease in revenue from sale of PLC products to customers under State Grid centralised biddings (which earned a relatively higher gross profit margin in general) during the period under review as compared to that of the corresponding period.

Other income

Other income increased by approximately 52.6% to approximately RMB12.1 million for the Period under review from approximately RMB7.9 million for the corresponding period in 2018. The increase was mainly attributable to an increase in government grants for the Period under review to approximately RMB8.2 million as compared to approximately RMB6.3 million for the corresponding period in 2018.

Sales and marketing expenses

Sales and marketing expenses significantly decreased by approximately 29.2% to approximately RMB18.1 million for the Period under review from approximately RMB25.6 million for the corresponding period in 2018. This decrease was mainly attributable to an implementation of tightened cost control measures by the Group on sales and marketing expenses whereas a significant decrease in customer service expenses and marketing and travelling expenses were resulted for the Period under review.

Management Discussion and Analysis *(continued)*

General and administrative expenses

General and administrative expenses significantly increased by approximately 69.4% to approximately RMB45.4 million for the Period under review from approximately RMB26.8 million for the corresponding period in 2018. This significant increase was primarily attributable to (i) an increase in amortisation expenses and (ii) an increase in impairment loss on trade receivables.

- (i) Amortisation expenses for the Period under review were incurred largely on the amortisation of intangible assets arising from the acquisition of Green Harmony by the Group in August 2018 of approximately RMB14.4 million where the Group did not incur respective amortisation expenses for the corresponding period in 2018.
- (ii) Impairment loss of approximately RMB8.1 million (for the corresponding period in 2018: approximately RMB2.8 million) on trade receivables mainly from the customers under AMR and other business segment (which were long aged and considered impaired) was incurred for the Period under review.

Research and development expenses

Research and development expenses decreased by approximately 10.0% to approximately RMB15.9 million for the Period under review from approximately RMB17.7 million for the corresponding period in 2018. The decrease was mainly attributable to a decrease in staff costs incurred during the Period under review since the headcount of Group's research and development team reduced to 86 employees as of June 30, 2019 (December 31, 2018: 101 employees). During the Period under review, the Group's strategically retained the resources on the development of our core PLC technology and the expansion of software application in the SMIA business segment while reducing the resources on field application engineering in the AMR and other business segment.

Fair value gains on financial instruments at fair value

During the Period under review, the Group recorded fair value gains on financial instruments at fair value of approximately RMB7.1 million (for the corresponding period in 2018: approximately RMB0.3 million) which was attributable to changes in fair value of financial instruments including the Convertible Bonds (as defined below), the Consideration Shares (as defined below) and the Consideration Notes Payables (as defined below).

Income tax (expenses)/credit

Income tax expenses of approximately RMB1.0 million were recorded during the Period under review while income tax credit of approximately RMB5.5 million was recorded for the corresponding period in 2018. A one-off Income tax credit of approximately RMB4.8 million was recorded for the corresponding period in 2018 primarily attributable to a change in the tax rate used to recognise deferred tax assets and liabilities from 15% to 25%. The Group continued to use the tax rate of 25% for recognition of respective deferred tax assets and liabilities during the Period under review and therefore no such income tax credit was recorded during the Period under review.

Loss Attributable to Equity Shareholders of the Company

As a result of the above factors, the Company recorded a loss attributable to equity shareholders of the Company for the Period under review of approximately RMB40.8 million (for the corresponding period in 2018: loss attributable to equity shareholders of the Company: approximately RMB9.2 million).

Management Discussion and Analysis *(continued)*

Goodwill

As of June 30, 2019, the Group's goodwill amounted to approximately RMB215.1 million (December 31, 2018: approximately RMB215.1 million) of which approximately RMB37.9 million and RMB177.2 million (December 31, 2018: approximately RMB37.9 million and RMB177.2 million) is allocated to the Group's cash-generating units (the "CGU") of AMR and other business segment and the SMIA business segment, respectively. The Company's accounting policy is to state goodwill at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually. However, the Directors review internal and external information at the end of each reporting period to identify indication that goodwill may be impaired.

Goodwill of AMR and other business

As mentioned above in the "Business review", the Group experienced an unexpected further delay in debut of the Group's PLC based broadband AMR product as of June 30, 2019 as compared to the original timetable expected by the Directors as of December 31, 2018 given the testing and processing time for the final approval run by the State Grid may take longer than expected. This has postponed the Group's participation in certain centralised biddings to be conducted by State Grid as well as certain local biddings in 2019 and hence may lead to a potential loss of market share which may hamper the financial performance of the Group's AMR and other business in the short run. As a result, the Directors determined that such unexpected further delay may give rise to an indicator that the value of the goodwill of the AMR and other business (CGU) could be impaired.

The Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. In assessing whether the goodwill has suffered any impairment, the carrying value of the CGU to which goodwill is allocated is compared with its recoverable amount, which is the higher of the asset's fair value less costs to dispose and value in use. The recoverable amounts are determined by utilising cash flow projections based on the latest approved financial budgets for 5 years discounted to present value.

The revised recoverable amount of the CGU of AMR and other business was calculated based on the revised cash flow projection as at June 30, 2019. The revised cash flow projection was based on the revised 5-year financial budget approved by the Directors and had been updated to incorporate assumptions and potential financial impact of the abovementioned further delay, and a revised discounted terminal value.

There were changes in certain assumptions and estimates involved for the preparation of the revised 5-year financial budgets, the cash flow projections for the period covered by the approved budget and the estimated terminal value at the end of the budget period. Key changes in assumptions, where applicable, include:

- (i) Reduction in the expected growth in revenue of the Group from State Grid by reducing total forecasted revenue of the Group for the years ending December 31, 2019 to 2023;
- (ii) Reduction of the Group's expected market share in the PLC market under State Grid;
- (iii) Change in general operating costs which aligns with the decrease in forecasted revenue;
- (iv) Change in working capital which aligns with the decrease in forecasted revenue; and
- (v) Change in discount rate based on current underlying market data, etc.

Based on the revised impairment assessment on the goodwill of AMR and other business carried out by the Directors as at June 30, 2019, the Directors determined no impairment charge on the goodwill of AMR and other business was resulted as of June 30, 2019.

Management Discussion and Analysis *(continued)*

The Directors further performed a sensitivity analysis* on the possible changes of the key assumptions including a reasonable change on the revenue, gross profit margins and discount rates; and determined that no key assumption was unreasonably optimistic.

* The sensitivity analysis is based on a change in the relevant assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Goodwill of SMIA business

Given the financial performance of the SMIA business segment for the Period under review was less than the 2019 interim financial budgets approved by the Directors as of December 31, 2018, the Directors performed an interim assessment to assess whether the original financial budgets approved for the year ending December 31, 2019 remained appropriate as of June 30, 2019. Key due diligence work performed by the Directors included revisiting the strategic plan of the SMIA business, assessing the project progress and reasonableness of the timing of revenue recognition of the backlog contracts of the SMIA business held as of June 30, 2019, forecasting the sale pipelines conducted by the management of the SMIA business with the expected market development in the medium and long run etc.

The Group also has engaged an Independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit based on the interim assessment performed by the Directors as of June 30, 2019, and determined that no impairment was resulted as of June 30, 2019.

Liquidity and Financial Resources

During the Period under review, the Group's operations were mainly financed by internal resources, including but not limited to existing cash and cash equivalents, cash flow from its operating activities, the net proceeds generated from the listing of shares of the Company (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited on June 9, 2017 and funds from Convertible Bonds (as defined below) issued. The Board believes that the Group's short term liquidity needs will be satisfied whereas the Board believed that additional funding raising activities are required to meet the Group's long term liquidity needs.

As of June 30, 2019, the Group's current assets amounted to approximately RMB369.3 million (as of December 31, 2018: approximately RMB577.2 million), with cash and cash equivalents totaling approximately RMB160.3 million (as of December 31, 2018: approximately RMB267.0 million). The cash and cash equivalents of the Group are principally held in RMB and USD.

As of June 30, 2019, the Group's total interest-bearing liabilities amounted to approximately RMB327.9 million (as of December 31, 2018: approximately RMB404.8 million), representing lease liabilities, issued Convertible Bonds (as defined below) and promissory notes issued to the vendor in relation to acquisition of Green Harmony. All interest-bearing liabilities will be due repayable after one year but within two years (except for current portion of lease liabilities of approximately RMB5.2 million which is payable within one year) with coupon rates range from 4% to 8% 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 45.2% as of June 30, 2019 (as of December 31, 2018: approximately 34.4%).

Exchange rate risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the Period under review and in the corresponding period of 2018, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Management Discussion and Analysis *(continued)*

Capital commitments

As of June 30, 2019, the Group had no material capital commitments (as of December 31, 2018: Nil).

Contingent liabilities

As of June 30, 2019, the Group had no contingent liabilities (as of December 31, 2018: Nil).

Charge on assets

As of June 30, 2019, the Group had no charge on assets (as of December 31, 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

There were no other significant events after the Period under review up to the date of this report.

Prospects

In accordance with a market research, it is further expected that the procurement of AMR products by State Grid will reach 87.7 million units by 2021 as smart meters and other terminals in China had entered a new phase of upgrades (including upgrades to broadband PLC protocols) since 2018. The bidding volume of smart meters and other terminals conducted by State Grid and Southern Grid is expected to grow at a compound annual growth rate of 11.5% from years 2017 to 2021. In addition to the centralised biddings conducted by the State Grid every year, a decentralised bidding system were carried out by individual provincial and local power grid companies under State Grid in view of speeding up the local needs and progress of the upgrade and replacement of broadband AMR products in each geographical area. Market participants may take chance of both bidding systems to formulate their business and marketing strategies by penetrating different geographical areas with their competitive advantages, including their pricing models, after-sales maintenance services, debtors collection cycles, technical support and etc. Nevertheless, all broadband AMR products provided by the market participants shall comply the unified standard of communication protocols with one of the main features: interconnection and intercommunication (互联互通). As a result, broadband AMR products are relatively substitutable as the costs of supply chain management are low to the customers; market participants have to compete in terms of, such as, timely delivery, competitive pricing, product reliability and effectiveness to increase product recognition, brand awareness and market share. This fundamental change may create a much fiercer and more intense market competition in the broadband AMR market in State Grid as compared to that of the previous generation.

As mentioned in the "Business Review", the Group experienced an unexpected further delay in the debut of PLC based broadband AMR products. As of the date of this report, the Group's PLC based broadband AMR product is still under the final testing and approval stage run by the respective departments of State Grid for approving the design and development of the Group's broadband system-on-chip ICs and related AMR products. The approval by respective department of State Grid is critical to the business development of our Group and that it will affect the Group's overall business strategy and position in the short and long run. The Directors will use their best endeavor to expedite the release of PLC based broadband products to the market as early as possible and to retain our competitiveness in the AMR industry in China. Based on the Directors' best estimate, the Group's PLC based broadband AMR product may pass the approval process in the second half of 2019 and the Directors expect an official launch of these products in the State Grid market by the end of 2019. Significant operational and financial risks may be encountered by the Group should the Group's PLC base broadband AMR product not pass through the final approval in year 2019 or if the Group's market share in the PLC market under State Grid is significantly less than expectation.

Management Discussion and Analysis *(continued)*

With the introduction of the Group's SMIA business through the acquisition of Green Harmony in the second half of 2018, the Group believed that the growth of China industrial automation market would continue to be healthy given its relatively lower penetration rate and the rising cost of labor at present. Petrochemical enterprises are the pioneer of the manufacturing sector in China, major market participants are building smart oil fields, smart pipelines and smart factories. The Group will continue to opt for opportunities in the design and implementation of industrial automation systems, particularly in the area of MSI for the petroleum and petrochemicals industry, other manufacturing and construction businesses by utilising the Group's own technologies and intellectual property rights.

Further, the Group commenced to explore the market of visualisation platform of intelligent factory, particularly on the reverse modeling of the pipelining system in petrochemical enterprises and the forward modeling of new pipelining projects. The Group has begun to build a full range of digital demonstration for other leading state-owned enterprises such as coal/chemical industry.

In addition, leveraging on the technology-based synergy among the Group's business segments, the Group can facilitate the application of PLC technology with obvious advantages in costing and implementation as a much-suited alternative technology in the future, by creating a significant network communication on vast site areas involved for petroleum and petrochemicals production facilities.

As of June 30, 2019, the Group's SMIA business secured backlog contracts with aggregated outstanding sales value of not less than RMB200 million in relation to sales of production safety equipment and the provision of a series of design and engineering software for establishing equipment management system and industrial internet of things, as well as the provision of maintenance services for such software. The duration of revenue recognition of the backlog contracts ranged from one year to five years.

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

Other Information

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

As of June 30, 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of Director	Relevant company	Nature of interest	Number of Shares in the relevant company (Note 1)	Approximate Percentage of interest as of June 30, 2019 (Note 5)
Mr. Yue Jingxing	The Company	Interest in a controlled corporation (Note 2(i))	91,943,624 (L)	10.96%
		Beneficial owner (Note 2(ii))	863,587 (L)	0.10%
Mr. Wang Shiguang	The Company	Interest of spouse (Note 3)	97,527,845 (L)	11.62%
Mr. Zhang Youyun	The Company	Interest in a controlled corporation (Note 4(i))	940,859 (L)	0.11%
		Beneficial owner (Note 4(ii))	1,841,423 (L)	0.22%

Notes:

- (1) The letter "L" denotes the Directors' long position in the shares of the Company ("Shares").
- (2) Mr. Yue Jingxing is the sole shareholder of Seashore Fortune Limited ("Seashore Fortune") which holds 91,943,624 Shares. By virtue of the SFO, Mr. Yue Jingxing is deemed to be interested in the Shares in which Seashore Fortune is interested. The disclosed interest represents (i) the interest in the Company held by Seashore Fortune; and (ii) options held by Mr. Yue Jingxing under the Pre-IPO Share Option Scheme adopted by the Company on August 25, 2016 (the "Pre-IPO Share Option Scheme").
- (3) Mr. Wang Shiguang, a non-executive director of the Company and the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen Junling's interest in the Company by virtue of the SFO.
- (4) Mr. Zhang Youyun is the sole shareholder of Glorious Lead Limited ("Glorious Lead"), which holds 940,859 Shares. By virtue of the SFO, Mr. Zhang Youyun is deemed to be interested in the Shares in which Glorious Lead is interested. The disclosed interest represents (i) the interest in the Company held by Glorious Lead; and (ii) the interest in the Company held by Mr. Zhang Youyun. Mr. Zhang Youyun resigned as an executive director of the Company on July 31, 2019.
- (5) The percentage represents the number of shares involved divided by the number of the Company's issued shares as of June 30, 2019. The total issued capital of the Company is 839,119,071 shares as of June 30, 2019.

Save as disclosed above, as of June 30, 2019, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information *(continued)*

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

As of June 30, 2019, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executives of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate Percentage of Company's issued share capital as at June 30, 2019 (Note 9)
Seashore Fortune	Beneficial owner	91,943,624 (L)	10.96%
Ms. Chen Junling	Interest in a controlled corporation (Note 2)	97,527,845 (L)	11.62%
Magical Success Holdings Limited ("Magical Success")	Beneficial owner (Note 2)	97,527,845 (L)	11.62%
SB Asia Investment Fund II L.P. ("SAIF")	Beneficial owner (Note 3 & 4)	197,340,537 (L) (Note 8)	23.52%
SAIF II GP L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	23.52%
SAIF Partners II L.P.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	23.52%
SAIF II GP Capital Ltd.	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	23.52%
Mr. Andrew Y. Yan	Interest in a controlled corporation (Note 3)	197,340,537 (L) (Note 8)	23.52%
Cisco System, Inc	Interest in a controlled corporation (Note 4)	197,340,537 (L) (Note 8)	23.52%
Dongxing Securities (Hong Kong) Financial Holdings Limited ("Dongxing HK")	Beneficial owner (Note 5)	45,000,000 (L) (Note 8)	5.36%
Dongxing Securities Co., Ltd ("Dongxing Securities")	Interest in a controlled corporation (Note 5)	45,000,000 (L) (Note 8)	5.36%

Other Information *(continued)*

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate Percentage of Company's issued share capital as at June 30, 2019 (Note 9)
Spitzer Fund VI L.P.	Beneficial owner	155,575,000 (L) (Note 8)	18.54%
Software Research Associates, Inc. (" SRA ")	Beneficial owner (Notes 6 & 7)	60,000,000 (L) (Note 8)	7.15%
SRA Holdings, Inc. (" SRA Holdings ")	Interest in a controlled corporation (Notes 6 & 7)	60,000,000 (L) (Notes 8)	7.15%

Notes:

- (1) The letter "L" denotes the person's or corporation's long position in the Shares.
- (2) Ms. Chen Junling is the sole shareholder of Magical Success which held 97,527,845 Shares. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested.
- (3) SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., a limited partnership established in the Cayman Islands, whose general partner is SAIF Partners II L.P., a limited partnership established in the Cayman Islands. The general partner of SAIF Partners II L.P. is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan. By virtue of the SFO, SAIF II GP L.P., SAIF Partners II L.P., SAIF II GP Capital Ltd. and Mr. Andrew Y. Yan are deemed to be interested in the Shares in which SAIF is interested.
- (4) Cisco Systems, Inc., being a limited partner of SAIF, holds 38.9% of equity interest in SAIF. By virtue of the SFO, Cisco Systems, Inc. is deemed to be interested in the Shares in which SAIF is interested.
- (5) Dongxing HK is wholly owned by Dongxing Securities. By virtue of the SFO, Dongxing Securities is deemed to be interested in the Shares in which Dongxing HK is interested.
- (6) These 60,000,000 Shares represented the total number of Shares which may be allotted and issued to SRA upon the exercise of the conversion rights attaching to the Convertible Bonds for the aggregate principal amount of HK\$150,000,000 at the Initial Conversion Price of HK\$2.50 per Share. The exercise of the conversion rights attaching to the Convertible Bonds is subject to the terms and conditions thereof.
- (7) SRA is wholly owned by SRA Holdings. By virtue of the SFO, SRA Holdings is deemed to be interested in the Shares in which SRA is interested.
- (8) Based on the disclosure of interests forms submitted by these substantial shareholders respectively as of June 30, 2019.
- (9) The percentage represents the number of Shares/underlying Shares involved divided by the number of the issued Shares as of June 30, 2019. The total issued capital of the Company is 839,119,071 shares as of June 30, 2019.

Save as disclosed above, as of June 30, 2019, other than the Directors and the chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions In the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Other Information (continued)

SHARE OPTION SCHEMES

Share Option Scheme

As disclosed in the prospectus of the Company dated May 29, 2017 (the "**Prospectus**"), the Company adopted a share option scheme (the "**Share Option Scheme**") on May 16, 2017. The Board may, at its discretion, grant options to any qualifying participants to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

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

Employees

Date of grant	Exercisable period	Outstanding as at December 31, 2018	Exercise Price per Share (Note 1) HK\$	During the Period under review				Outstanding as at June 30, 2019
				Granted	Exercised	Cancelled	Lapsed	
September 3, 2018	From September 3, 2018 to September 2, 2026	1,125,000	1.71	-	-	-	-	1,125,000
September 3, 2018	From September 3, 2020 to September 2, 2026	4,791,669	1.71	-	-	-	-	4,791,669
September 3, 2018	From September 3, 2021 to September 2, 2026	4,791,669	1.71	-	-	-	-	4,791,669
September 3, 2018	From September 3, 2022 to September 2, 2026	4,791,662	1.71	-	-	-	-	4,791,662
Total		15,500,000		-	-	-	-	15,500,000

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

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

Other Information (continued)

Pre-IPO Share Option Scheme

As disclosed in the Prospectus, the Company adopted the Pre-IPO Share Option Scheme on August 25, 2016 and granted options to subscribe for an aggregate of 771,680 Shares. Immediately following the completion of the Capitalisation Issue (as defined in the Prospectus), the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme increased from 495,180 Shares to 16,210,417 Shares.

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

Directors

Name of Directors	Date of grant	Exercisable period	Outstanding as at December 31, 2018	Exercise Price per Share (Note 1) USD	During the Period under review				Outstanding as at June 30, 2019
					Granted	Exercised	Cancelled	Lapsed	
Mr. Yue Jingxing	August 25, 2016	From August 25, 2016 to March 25, 2024	863,587	0.0003	-	-	-	-	863,587
Mr. Zhang Youyun	August 25, 2016	From August 25, 2016 to March 25, 2024	1,841,423	0.0003	-	(1,841,423) (Note 2)	-	-	-
Sub-total			2,705,010		-	(1,841,423)	-	-	863,587

Employees

Date of grant	Exercisable period	Outstanding as at December 31, 2018	Exercise Price per Share (Note 1) USD	During the Period under review				Outstanding as at June 30, 2019
				Granted	Exercised	Cancelled	Lapsed	
August 25, 2016	From August 25, 2016 to March 25, 2024	9,595,401	0.0003	-	(9,595,401) (Note 2)	-	-	-
Sub-total		9,595,401	0.0003	-	(9,595,401)	-	-	-
Total		12,300,411		-	(11,436,824)	-	-	863,587

Note:

- (1) Calculated based on the aggregate exercise price of the options granted under the Pre-IPO Share Option Scheme divided by the number of Shares to be subscribed upon full exercise of such options.
- (2) The closing price of Company's shares immediately before the date on which the options were exercised on January 15, 2019 was HK\$1.67.

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

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

Other Information *(continued)*

INTERIM DIVIDEND

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code during the Period under review. The Board will continue to review and monitor the corporate governance status of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Acquisition of NM Technology

In March 2018, Harvest Year Global Limited (“**Harvest Year**”), a direct wholly owned subsidiary of the Company, entered into a conditional sales and purchase agreement (the “**NM SPA**”) to acquire NM Information Technology Company Limited (“**NM Technology**”), which directly holds the entire equity interest of a company established in China, which principally engages in sales and distribution of electronic components, in particular for ICs and related products in China (the “**Acquisition of NM Technology**”). The Acquisition of NM Technology was completed on April 30, 2018.

Pursuant to the NM SPA, the final payment of the consideration (subject to adjustment and deduction) will be determined and settled by the allotment and issue of consideration shares (the “**Consideration Shares**”) by the Company to the vendor of NM Technology (the “**NM Vendor**”) pursuant to the terms of the SPA.

According to the adjustment mechanism stipulated in the NM SPA and with reference to the financial information of NM Technology and its subsidiaries for the year ended December 31, 2018, no adjustment to the consideration was required. On June 14, 2019, the Company issued 16,434,826 Consideration Shares to the NM Vendor as settlement of the final payment of the consideration.

Please refer to the announcements of the Company dated March 15, 2018, April 30, 2018, July 20, 2018 and June 14, 2019 for further details.

Other Information *(continued)*

Acquisition of Green Harmony

In December 2017, the Company entered into a conditional sale and purchase agreement (the “**GH SPA**”) to acquire Green Harmony, which indirectly holds the entire equity interest of a group of companies established in China with principal activities of provision of MSI for the petroleum and petrochemicals industry (the “**Acquisition of Green Harmony**”). The Acquisition of Green Harmony was completed on August 15, 2018.

On August 15, 2018, the Company issued an unsecured promissory note (the “**First Promissory Note**”) with a face value of HK\$200 million, with a coupon interest rate of 8% per annum and be repayable on August 14, 2019, to Sailen International IOT Limited (the “**GH Vendor**”). On December 31, 2018, the Company further issued an unsecured promissory note (the “**Second Promissory Note**”) with a face value of HK\$200 million, with a coupon interest rate of 8% per annum and be repayable on December 30, 2020, to the GH Vendor. On March 15, 2019, the repayment due date of the First Promissory Note was extended to August 14, 2020.

On March 18, 2019, the Company redeemed from the GH Vendor the principal amount of HK\$100 million of the First Promissory Note, together with payment of the accrued interest.

According to the adjustment mechanism stipulated in the GH SPA and with reference to the financial information of the Green Harmony and its subsidiaries for the year ended December 31, 2018, adjustment to the consideration was made. As of the date of this report, the final consideration of the Acquisition of Green Harmony was determined to be approximately HK\$423 million and therefore the face value of the Second Promissory Note was reduced to approximately HK\$123 million according to the terms stipulated in the GH SPA.

As of the date of this report, the remaining principal amount of the First Promissory Note and Second Promissory Note (collectively referred as to the “**Consideration Notes Payables**”) are HK\$100 million and approximately HK\$123 million, respectively.

Please refer to the announcements of the Company dated December 1, 2017, December 28, 2017, January 3, 2018, January 10, 2018, February 12, 2018, March 23, 2018, May 31, 2018, August 15, 2018 and March 15, 2019 for further details.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Change in Directors' biographical details during the period from the date of the Annual Report 2018 to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of change
Mr. Wang Shiguang	Mr. Wang has ceased to be the chairman of the Board and the chairman of the Nomination Committee of the Company since June 10, 2019.
Mr. Cheung Fan	Mr. Cheung has been appointed as the chairman of the Board and the chairman of the Nomination Committee of the Company since June 10, 2019 and his director's fee has been adjusted to HK\$360,000 per annum given the new positions held.
Mr. Tang Andong	Mr. Tang has been appointed as an executive director of the Company for an initial term of three years renewable automatically for successive terms of one year since July 31, 2019. Mr. Tang is entitled to receive a director's fee of HK\$120,000 per annum and a discretionary bonus which is based on the performance of the Company and of Mr. Tang.

Other Information *(continued)*

Name of Director	Details of change
Mr. Zhang Youyun	Mr. Zhang has resigned as an executive director of the Company due to his other work commitments since July 31, 2019.
Mr. Zhou, Francis Bingrong	Mr. Zhou resigned as a non-executive director of the Company on June 10, 2019 due to his other work commitments.
Mr. Yang Luokui	Mr. Yang has been appointed as a non-executive Director of the Company for an initial term of three years since June 10, 2019. Mr. Yang is entitled to receive a director's fee of HK\$120,000 per annum.
Mr. Ong King Keung	Mr. Ong resigned as a non-executive Director of Deson Construction International Holdings Limited (stock code: 8268), the shares of which are listed on the GEM of the Stock Exchange, on July 29, 2019.
Mr. Chen Yong	Mr. Chen retired as an independent executive director of the Company and ceased to be a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company on May 23, 2019.
Mr. Pan Song	Mr. Pan retired as an independent executive director of the Company and ceased to be a member of the Audit Committee of the Company on May 23, 2019.
Ms. Lo Wan Man	Ms. Lo has been appointed as the independent non-executive director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company for an initial term of three years since May 29, 2019. Ms. Lo is entitled to receive a director's fee of HK\$120,000 per annum.
Mr. Zou Heqiang	Mr. Zou has been appointed as the independent non-executive director and member of the Audit Committee of the Company for an initial term of three years since May 29, 2019. Mr. Zou is entitled to receive a director's fee of HK\$120,000 per annum.

Saved 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

Other Information (continued)

USE OF PROCEEDS

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

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

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

FROM INITIAL GLOBAL OFFERING

	Original planned use of Net Proceeds HK\$million	Amount utilised as of June 30, 2019 HK\$million	Unutilised net proceeds June 30, 2019 HK\$million	Reallocation on July 3, 2019 HK\$million	Proposed application of the Unutilised Net Proceeds HK\$million
Research and development of the PLC technology	95.7	34.6	61.1	(37.8)	23.3
Sales and marketing	32.0	8.6	23.4	(6.9)	16.5
Repayment of an entrusted bank loan	14.7	14.7	–	–	–
Working capital and general corporate purposes	15.8	15.8	–	–	–
Repayment of interest expenses	–	–	–	44.7	44.7
	158.2	73.7	84.5	–	84.5

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

Other Information *(continued)*

FROM ISSUE OF CONVERTIBLE BONDS

From Issue of the Convertible Bonds

References are made to the announcements of the Company dated July 31, 2018. The Company issued convertible bonds (the “**Convertible Bonds**”) with aggregate principal amount of HK\$150,000,000 at coupon interest rate of 4% per annum to Software Research Associates, Inc., an independent investor, on August 13, 2018. The aggregated net proceeds from the issue of the Convertible Bonds was approximately HK\$146.0 million.

During the Period under review, the net proceeds had been applied for as follows:

	Actual Net proceeds HK\$'million	Amount utilised as at June 30, 2019 HK\$'million	Unutilised net proceeds as at June 30, 2019 HK\$'million
Settle consideration for the acquisition of Green Harmony	146.0	146.0	–

As at the date of this report, the net proceeds from issue of Convertible Bonds were fully utilised.

EMPLOYEE EMOLUMENT POLICIES

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

As of June 30, 2019, the Group had an aggregate of 263 employees (as of December 31, 2018: 355 employees). The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the directors with reference to individual performance and current market salary scale.

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

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL RESULTS

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

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

Consolidated Statement of Profit or Loss

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Note	Six months ended June 30,	
		2019 RMB'000	2018 RMB'000 (Note)
Revenue	4	89,621	174,354
Cost of sales		(68,824)	(127,120)
Gross profit		20,797	47,234
Other income	5	12,109	7,935
Sales and marketing expenses		(18,110)	(25,578)
General and administrative expenses		(45,393)	(26,789)
Research and development expenses		(15,910)	(17,682)
Loss from operations		(46,507)	(14,880)
Finance costs	6(a)	(401)	(61)
Share of profit/(loss) of associate		9	(66)
Fair value gains on financial instruments at fair value	6(b)	7,138	320
Loss before taxation	6	(39,761)	(14,687)
Income tax (expense)/credit	7	(1,040)	5,492
Loss for the period		(40,801)	(9,195)
Attributable to:			
— Equity shareholders of the Company		(40,801)	(9,215)
— Non-controlling interests		-	20
Loss for the period		(40,801)	(9,195)
Loss per share	8		
Basic (RMB cents)		(4.94)	(1.12)
Diluted (RMB cents)		(5.55)	(1.12)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive income

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000 (Note)
Loss for the period	(40,801)	(9,195)
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China	138	(1,264)
Total comprehensive income for the period	(40,663)	(10,459)
Attributable to:		
— Equity shareholders of the Company	(40,663)	(10,479)
— Non-controlling interests	—	20
Total comprehensive income for the period	(40,663)	(10,459)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Financial Position

At June 30, 2019 — unaudited
(Expressed in Renminbi)

	Note	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment		29,353	30,877
Right-of-use assets	3(c),9	10,112	—
Intangible assets	10	197,689	215,363
Goodwill	11	215,147	215,147
Interest in associate		455	446
Deferred tax assets		16,024	19,813
		468,780	481,646
Current assets			
Inventories	12	29,267	33,225
Contract costs		3,729	7,548
Trade and other receivables	13	175,747	259,253
Restricted bank deposits		227	148
Financial investments at fair value through profit or loss		—	10,000
Cash and cash equivalents		160,292	267,037
		369,262	577,211
Current liabilities			
Trade and other payables	14	55,448	124,006
Contract liabilities		18,833	23,700
Lease liabilities	3(c)	5,191	—
Acquisition consideration payables	15	—	211,280
Income tax payable		9,331	12,551
		88,803	371,537
Net current assets		280,459	205,674
Total assets less current liabilities		749,239	687,320

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Financial Position *(continued)*

At June 30, 2019 — unaudited
(Expressed in Renminbi)

	Note	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000 (Note)
Non-current liabilities			
Acquisition consideration payables	15	208,151	105,255
Lease liabilities	3(c)	5,039	—
Convertible bonds	16	109,503	120,502
Deferred tax liabilities		49,778	54,043
Deferred income		5,847	6,734
		378,318	286,534
Net assets			
		370,921	400,786
Capital and reserves			
	18		
Share capital		73	71
Reserves		370,848	400,715
Total equity			
		370,921	400,786

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

Approved and authorised for issue by the Board of Directors on August 29, 2019.

Yue Jingxing
Director

Lau Wai Leung, Alfred
Director

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000		
Balance at December 31, 2017		71	166,943	129,999	17,781	7,346	69,058	391,198	183	391,381
Impact on initial application of HKFRS 9		-	-	-	-	-	(1,690)	(1,690)	-	(1,690)
Balance at January 1, 2018		71	166,943	129,999	17,781	7,346	67,368	389,508	183	389,691
Changes in equity for the six months ended June 30, 2018:										
(Loss)/profit for the period		-	-	-	-	-	(9,215)	(9,215)	20	(9,195)
Other comprehensive income		-	-	-	-	(1,264)	-	(1,264)	-	(1,264)
Total comprehensive income		-	-	-	-	(1,264)	(9,215)	(10,479)	20	(10,459)
Equity-settled share-based payments		-	-	5	-	-	-	5	-	5
Balance at June 30, 2018		71	166,943	130,004	17,781	6,082	58,153	379,034	203	379,237

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	PRC statutory reserves	Exchange reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at July 1, 2018	71	166,943	130,004	17,781	6,082	58,153	379,034	203	379,237
Changes in equity for the six months ended December 31, 2018:									
Profit for the period	-	-	-	-	-	13,419	13,419	-	13,419
Other comprehensive income	-	-	-	-	6,141	-	6,141	(29)	6,112
Total comprehensive income	-	-	-	-	6,141	13,419	19,560	(29)	19,531
Equity-settled share-based payments	-	-	2,017	-	-	-	2,017	-	2,017
Appropriation to reserves	-	-	-	4,054	-	(4,054)	-	-	-
Issue of shares under share option plan	-	94	(93)	-	-	-	1	-	1
Issue of ordinary shares under share option plan	-	-	174	-	-	-	174	(174)	-
Balance at December 31, 2018	71	167,037	132,102	21,835	12,223	67,518	400,786	-	400,786

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 31 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity *(continued)*

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at January 1, 2019	71	167,037	132,102	21,835	12,223	67,518	400,786
Changes in equity for the six months ended June 30, 2019:							
Loss for the period	-	-	-	-	-	(40,801)	(40,801)
Other comprehensive income	-	-	-	-	138	-	138
Total comprehensive income	-	-	-	-	138	(40,801)	(40,663)
Equity-settled share-based payments	-	-	1,970	-	-	-	1,970
Appropriation to reserves	-	-	-	455	-	(455)	-
Issue of ordinary shares under share option plan (note 17)	1	2,889	(2,866)	-	-	-	24
Issue of shares upon settlement of contingent consideration (note 18(b)(i))	1	8,803	-	-	-	-	8,804
Balance at June 30, 2019	73	178,729	131,206	22,290	12,361	26,262	370,921

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 31 to 56 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended June 30, 2019 — unaudited
(Expressed in Renminbi)

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000 (Note)
Operating activities:		
Cash used in operations	(5,352)	(14,999)
Income tax paid	(4,877)	(2,268)
Net cash used in operating activities	(10,229)	(17,267)
Investing activities:		
Payment for acquisition of subsidiaries	(101,026)	—
Proceeds from maturity of wealth management products	10,000	—
Cash acquired in acquisition of subsidiaries	—	1,025
Payment for purchase of property, plant and equipment and intangible assets	(1,224)	(1,199)
Interest received	1,183	323
Expenditure on development cost	(189)	(1,196)
Other cash flows arising from investing activities	38	19
Net cash used in investing activities	(91,218)	(1,028)
Financing activities:		
Payment for interest of convertible bonds	(2,643)	—
Capital element of lease rentals paid	(2,397)	—
Interest element of lease rentals paid	(276)	—
Cash received from investors for share subscription	24	—
Net cash used in financing activities	(5,292)	—
Net decrease in cash and cash equivalents	(106,739)	(18,295)
Effect of foreign exchange rate changes	(6)	398
Cash and cash equivalents at January 1	267,037	184,643
Cash and cash equivalents at June 30	160,292	166,746

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 31 to 56 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised by the Board for issue on August 29, 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRSs, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has adopted HKFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Changes in the accounting policies *(Continued)*

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

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. For the Group, low-value assets are typically office furniture. 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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

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.

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.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over 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. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. January 1, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before December 31, 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The following table reconciles the operating lease commitments as at December 31, 2018 to the opening balance for lease liabilities recognised as at January 1, 2019:

	January 1, 2019 RMB'000
Operating lease commitments at December 31, 2018	6,999
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before December 31, 2019	(877)
— leases of low-value assets	—
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	7,291
	13,413
Less: total future interest expenses	(807)
	12,606
Present value of remaining lease payments, discounted using the incremental borrowing rate at January 1, 2019	12,606
Total lease liabilities recognised at January 1, 2019	12,606

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at December 31, 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at December 31, 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at January 1, 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	—	12,606	12,606
Total non-current assets	481,646	12,606	494,252
Lease liabilities (current)	—	5,207	5,207
Current liabilities	371,537	5,207	376,744
Net current assets	205,674	(5,207)	200,467
Total assets less current liabilities	687,320	7,399	694,719
Lease liabilities (non-current)	—	7,399	7,399
Total non-current liabilities	286,534	7,399	293,933
Net assets	400,786	—	400,786

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At June 30, 2019 RMB'000	At January 1, 2019 RMB'000
Properties leased for own use, carried at depreciated cost	10,112	12,606

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At June 30, 2019		At January 1, 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	5,191	5,325	5,207	5,341
After 1 year but within 2 years	4,474	4,868	4,447	5,075
After 2 years but within 5 years	565	570	2,952	2,997
	10,230	10,763	12,606	13,413
Less: total future interest expenses		(533)		(807)
Present value of lease liabilities		10,230		12,606

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at January 1, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The following tables give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial results, segment results and cash flows for the six months ended June 30, 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 had this superseded standard been applied to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	Six months ended June 30,				2018
	2019		2018		
	Amounts reported under HKFRS 16 (A)	Add back: HKFRS 16 depreciation and interest expense (B)	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C)	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial result for the six months ended June 30, 2019 impacted by the adoption of HKFRS 16:					
Loss from operations	(46,507)	2,515	(2,673)	(46,665)	(14,880)
Finance costs	(401)	276	–	(125)	(61)
Share of profits/(losses) of associates	9	–	–	9	(66)
Fair value gains on financial instruments at fair value	7,138	–	–	7,138	320
Loss before taxation	(39,761)	2,791	(2,673)	(39,643)	(14,687)
Loss for the period	(40,801)	2,791	(2,673)	(40,683)	(9,195)
Reportable segment (loss)/profit for the six months ended June 30, 2019 (note 4(b)) impacted by the adoption of HKFRS 16:					
– AMR and other business	(15,286)	1,032	(1,093)	(15,347)	3,974
– SMIA business	2,063	–	–	2,063	–
– Total	(13,223)	1,032	(1,093)	(13,284)	3,974

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

	Six months ended June 30,			2018
	2019	2019	2019	
	Estimated	Estimated	Hypothetical	Compared
	amounts	amounts	amounts for	to amounts
	related to	related to	2019 as if	reported for
	operating	operating	under	2018 under
	leases as if	leases as if	HKAS 17	HKAS 17
	under HKAS 17	under HKAS 17	(C=A+B)	HKAS 17
	(notes 1 &2)	(notes 1 &2)		HKAS 17
	(A)	(B)	(C=A+B)	
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash used in operations	(5,352)	(2,673)	(8,025)	(14,999)
Net cash used in operating activities	(10,229)	(2,673)	(12,902)	(17,267)
Capital element of lease rentals paid	(2,397)	2,397	–	–
Interest element of lease rentals paid	(276)	276	–	–
Net cash used in financing activities	(5,288)	2,673	(2,615)	–

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, had HKAS 17 still been applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17 had HKAS 17 still been applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as had HKAS 17 still been applied.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

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

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15 and recognised at a point in time		
Disaggregated by major products of service lines		
AMR business		
– PLC Integrated circuits ("ICs")	14,878	27,645
– PLC modules	15,197	53,560
– Other AMR products	29,255	82,950
– AMR maintenance services	6,771	10,199
Sub-total of AMR and other business	66,101	174,354
SMIA business		
– Software license	14,190	–
– Production safety products	3,035	–
Sub-total of SMIA business	17,225	–
Revenue from contracts with customers within the scope of HKFRS 15 and recognised over time		
Disaggregated by major products of service lines		
SMIA business		
– Post-contract customer support service	6,295	–
Sub-total of SMIA business	6,295	–
Total	89,621	174,354

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

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

The Group presented two reportable segments, namely AMR business and Smart energy management business, in the consolidated financial statements for six months ended June 30, 2018.

The Group has presented the following two reportable segments. Comparative information has been restated to conform with the current year's presentation.

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

(i) Segment results, assets and liabilities

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

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

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

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

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

	Six months ended June 30, 2018 (Note)		
	AMR and other business	SMIA business	Total
	RMB'000	RMB'000	RMB'000
Reportable segment revenue	174,354	–	174,354
Reportable segment cost of sales	(127,120)	–	(127,120)
Reportable segment sales and marketing expenses	(25,578)	–	(25,578)
Reportable segment research and development expenses	(17,682)	–	(17,682)
Reportable segment profit	3,974	–	3,974

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

Notes to the Unaudited Interim Financial Report (continued)

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000 (Note)
Reportable segment (loss)/profit	(13,223)	3,974
Other income	12,109	7,935
General and administrative expenses	(45,393)	(26,789)
Finance costs	(401)	(61)
Share of profit/(loss) of associate	9	(66)
Fair value gains on financial instruments at fair value	7,138	320
Loss before taxation	(39,761)	(14,687)

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(iii) Information about geographical area

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets. For the six months ended June 30, 2019 and 2018, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were located in the PRC.

5 OTHER INCOME

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Interest income from bank deposits	1,020	323
Government grants		
— Unconditional subsidies (note (a))	7,355	4,769
— Conditional subsidies	888	1,485
Net exchange gain	710	1,284
Others	2,136	74
	12,109	7,935

(a) Government grants

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

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000 (Note)
Interest expense on promissory notes	125	61
Interest expense on lease liabilities	276	–
	401	61

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Gain on final settlement of contingent share consideration (note 15(a)(ii))	(14,521)	(320)
Change In Fair Value Of Contingent Consideration notes payable (note 15(b)(i))	15,842	–
Change in fair value of convertible bonds (note 16)	(8,360)	–
Change in fair value of financial investments at fair value through profit or loss	(99)	–
	(7,138)	(320)

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

6 LOSS BEFORE TAXATION *(Continued)*

(c) Other items

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000 (Note)
Cost of inventories	56,199	127,531
Cost of software license sold	8,229	–
Cost of post-contract customer support service	4,838	–
Depreciation and amortisation		
– intangible assets arising from the acquisition	17,060	890
– right-of-use assets	2,515	–
– owned property, plant and equipment	1,956	3,796
Impairment losses of trade receivables	8,148	2,783
Operating lease charges	3,255	4,018
Product warranty costs	561	1,309

Note: The Group has adopted HKFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

7 INCOME TAX EXPENSE/(CREDIT)

(a) Income tax credit in the consolidated statement of profit or loss represents:

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Current tax:		
Provision for current income tax for the period	1,513	1,493
Deferred tax:		
Origination and reversal of temporary differences	(473)	(6,985)
	1,040	(5,492)

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

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

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Loss before taxation	(39,760)	(14,687)
Notional tax on loss before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	(10,000)	(2,727)
Tax effect of non-deductible expenses	426	235
Additional deduction for qualified research and development costs (ii)	(2,092)	(1,182)
Over-provision in prior years	(60)	(293)
Write-off of deferred tax assets recognised in previous years	6,082	–
Tax effect of temporary differences not recognised (iii)	1,492	–
Tax effect of unused tax losses not recognised	5,510	3,355
Tax effect of unrecognised tax losses utilised	(318)	(47)
Effect on deferred tax balance resulting from a change in tax rate (i)	–	(4,833)
Actual income tax expense/(credit)	1,040	(5,492)

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

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

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25% except Risecomm Microelectronics (Shenzhen) Co., Ltd. ("**Risecomm WFOE**"), a PRC subsidiary of the Group, is entitled to the preferential tax rate of 15% from years 2016 to 2018, being accredited as a High and New Technology Enterprise according to the PRC Corporate Income Tax Law and its relevant regulations. As Risecomm WFOE has not renewed the qualification of High and New Technology Enterprise as at June 30, 2019, the PRC corporate income tax rate of Risecomm WFOE is 25%.

(ii) Under the PRC Corporate Income Tax Law and its relevant regulations, 75% additional tax deduction is allowed for qualified research and development costs for year 2019 (2018: 75%).

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

Notes to the Unaudited Interim Financial Report (continued)

(Expressed in Renminbi unless otherwise indicated)

8 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss earnings per share is based on loss attributable to ordinary equity shareholders of the Company of RMB40,801,000 (six months ended June 30, 2018: loss attributable to ordinary equity shareholders of the Company of RMB9,215,000) and the weighted average of 825,100,010 ordinary shares in issue during the six months ended June 30, 2019 (six months ended June 30, 2018: 823,376,000 shares), calculated as follows.

(i) Weighted average number of ordinary shares

	Six months ended June 30,	
	2019	2018
Shares issued on January 1,	811,247,421	810,877,303
Effect of equity-settled share options exercised	11,436,824	–
Effect of vested equity-settled share options	863,587	12,498,697
Effect of shares issued as consideration for acquisition of NM Technology	1,552,178	–
Weighted average number of shares	825,100,010	823,376,000

(b) Diluted loss per share

The calculation of diluted loss per share is based on loss attributable to ordinary equity shareholders of the Company of RMB49,161,000 (six months ended June 30, 2018: loss attributable to ordinary equity shareholders of the Company of RMB9,215,000) and the weighted average of 885,100,010 shares for the six months ended June 30, 2019 (six months ended June 30, 2018: 823,376,000 shares), calculated as follows:

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Loss attributable to ordinary equity shareholders (basic)	(40,801)	(9,215)
After tax effect of gain on fair value changes of convertible bonds (note 6(b))	(8,360)	–
Loss attributable to ordinary equity shareholders (diluted)	(49,161)	(9,215)

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

8 LOSS PER SHARE *(Continued)*

(b) Diluted loss per share *(Continued)*

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

	Six months ended June 30,	
	2019	2018
Weighted average number of ordinary shares at June 30 (basic)	825,100,010	823,376,000
Effect of conversion of convertible bonds	60,000,000	–
Weighted average number of ordinary shares at June 30 (diluted)	885,100,010	823,376,000

9 RIGHT-OF-USE ASSETS

As discussed in note 3, the Group has adopted HKFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended June 30, 2019, the Group had not entered into any new significant lease agreement.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

10 INTANGIBLE ASSETS

	Software RMB'000	Capitalised development costs RMB'000	Non- compete undertakings RMB'000	Customer relationship RMB'000	Unfulfilled contracts RMB'000	Total RMB'000
Cost:						
At January 1, 2018	10,753	7,287	–	–	–	18,040
Acquisition of subsidiaries (Note 15)	3	–	99,380	100,147	22,264	221,794
Additions	151	2,036	–	–	–	2,187
At December 31, 2018 and January 1, 2019	10,907	9,323	99,380	100,147	22,264	242,021
Additions	52	189	–	–	–	241
At June 30, 2019	10,959	9,512	99,380	100,147	22,264	242,262
Accumulated depreciation:						
At January 1, 2018	(4,045)	–	–	–	–	(4,045)
Charge for the year	(2,190)	–	(5,875)	(5,949)	(8,599)	(22,613)
At December 31, 2018 and January 1, 2019	(6,235)	–	(5,875)	(5,949)	(8,599)	(26,658)
Charge for the period	(855)	–	(6,326)	(7,363)	(3,371)	(17,915)
At June 30, 2019	(7,090)	–	(12,201)	(13,312)	(11,970)	(44,573)
Net book value:						
At June 30, 2019	3,869	9,512	87,179	86,835	10,294	197,689
At December 31, 2018	4,672	9,323	93,505	94,198	13,665	215,363

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

11 GOODWILL

	2019 RMB'000	2018 RMB'000
Balance at January 1	215,147	–
Additions	–	215,147
Balance at June 30/December 31	215,147	215,147

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (the "CGU") identified according to the business segment as follows:

	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000
AMR and other business	37,936	37,936
SMIA business	177,211	177,211
	215,147	215,147

Goodwill of AMR and other business

As at June 30, 2019, the Directors determined an impairment indicator on goodwill of AMR and other business unit arising from an unexpected further delay in debut of the Group's PLC based broadband AMR product. This may lead to potential hamper on the financial performance of the Group's AMR and other business in the short run.

As at June 30, 2019, the Group has engaged an independent external valuation firm to perform an impairment test for the goodwill of AMR and other business unit. The recoverable amount of the CGU has been determined based on value-in-use calculations. This calculation uses cash flow projections based on revised financial budgets approved by the Directors covering a five-year period as at June 30, 2019.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

11 GOODWILL *(Continued)*

Goodwill of AMR and other business *(Continued)*

Key changes in certain assumptions and estimates involved for the preparation of the revised five-year period financial budgets, the cash flow projections for the period covered by the approved budget and the estimated terminal value at the end of the budget period, where applicable, include:

- (i) Reduction in the expected growth in revenue of the Group from State Grid by reducing total forecasted revenue of the Group for the years ending December 31, 2019 to 2023;
- (ii) Reduction of the Group's expected market share in the PLC market under State Grid;
- (iii) Change in general operating costs which aligns with the decrease in forecasted revenue;
- (iv) Change in working capital which aligns with the decrease in forecasted revenue; and
- (v) Change in discount rate based on current underlying market data, etc.

As at June 30, 2019, the Directors determined no impairment charge on the goodwill of AMR and other business was resulted (December 31, 2018: Nil).

The Directors further performed a sensitivity analysis* on the possible changes of the key assumptions including a reasonable change on the revenue gross profit margins and discount rates; and determined that no key assumption was unreasonably optimistic.

* The sensitivity analysis is based on a change in the relevant assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Goodwill of SMIA business

The Directors performed an interim assessment to assess whether the original financial budgets approved for the year ending December 31, 2019 remained appropriate as at June 30, 2019. As at June 30, 2019, the Group also has engaged an independent external valuation firm to perform an impairment test for the goodwill of SMIA business unit and the Directors determined no impairment indicator was provided (December 31, 2018: Nil).

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

12 INVENTORIES

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

	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000
Raw materials	16,360	16,925
Work in progress	2,860	3,418
Finished goods	30,390	26,897
	49,610	47,240
Provision for diminution in value of inventories	(20,343)	(14,015)
	29,267	33,225

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

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	62,670	123,276
Write down of inventories	6,154	3,844
Cost of inventories directly recognised as research and development expenses	442	411
	69,266	127,531

Notes to the Unaudited Interim Financial Report (continued)

(Expressed in Renminbi unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

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

	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000
Within 6 months	38,486	154,404
6 to 12 months	62,548	26,066
Over 12 months	21,016	25,955
Trade receivables, net of loss allowance for doubtful debts	122,050	206,425
Bills receivables	15,640	15,342
Deposits and prepayments	23,626	27,735
Income tax recoverable	226	85
Other receivables	14,205	9,666
Total trade and other receivables	175,747	259,253

14 TRADE AND OTHER PAYABLES

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

	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000
Within 3 months	9,551	70,249
After 3 months but within 6 months	3,648	8,825
After 6 months but within 1 year	24,640	7,798
Over 1 year but within 2 years	6,205	4,922
Total trade payables	44,044	91,794
Product warranty provision	1,617	3,474
Other payables and accruals	9,787	28,738
Total trade and other payables	55,448	124,006

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

15 ACQUISITION CONSIDERATION PAYABLES

	Note	At June 30, 2019 RMB'000	At December 31, 2018 RMB'000
Acquisition of North Mountain Information Technology Company Limited (" NM Technology ")	a		
— Promissory note payable		—	8,875
— Contingent share consideration payable		—	23,325
Acquisition of Green Harmony			
— Contingent consideration notes payable	b (i)	208,151	284,335
		208,151	316,535
Representing:			
— Amounts payable within 1 year		—	211,280
— Amounts payable after 1 year but within 2 years	b (ii)	208,151	105,255
		208,151	316,535

(a) Acquisition of NM Technology

	2019 RMB'000	2018 RMB'000
Balance at January 1	32,200	—
Acquisition of a subsidiary	—	55,191
Payment of the cash consideration	—	(15,000)
Payment of the Promissory note (i)	(9,000)	—
Interest expense on Promissory note (i)	125	250
Gain on fair value changes recognised in the profit or loss (ii)	(14,521)	(8,241)
Issue of shares upon settlement of contingent consideration (ii)	(8,804)	—
Balance at June 30/December 31	—	32,200

(i) Promissory note payable

On April 30, 2018, the Group issued an unsecured, non-interest bearing promissory note with payment due date of 12 months from April 30, 2018 (the "**NM Acquisition Date**"). The face value and fair value of the promissory note at the NM Acquisition Date was RMB9,000,000 and RMB8,625,000, respectively. The promissory note is measured at amortised cost.

On May 21, 2019, the Group paid the promissory note in cash of RMB9,000,000 to the vendor of NM Technology and a finance cost of RMB125,000 was recognised in profit or loss for the current period accordingly.

Notes to the Unaudited Interim Financial Report (continued)

(Expressed in Renminbi unless otherwise indicated)

15 ACQUISITION CONSIDERATION PAYABLES (Continued)

(a) Acquisition of NM Technology (Continued)

(ii) Contingent share consideration payable

The decrease in the balance of contingent share consideration payables during the six months ended June 30, 2019 was attributable to the issuance of 16,343,826 ordinary shares to the vendor of NM Technology as the final settlement payment of the consideration according to the sales and purchase agreement at a fair value of RMB8,804,000 and RMB14,521,000 was recorded as gain on final settlement of contingent share consideration.

(b) Acquisition of Green Harmony

	2019 RMB'000	2018 RMB'000
Balance at January 1	284,335	–
Acquisition of a subsidiary	–	363,675
Payment of cash consideration	–	(87,720)
Fair value changes recognised in the profit or loss (i)	15,842	8,380
Partially cash redemption of the “First Promissory note” (ii)	(92,026)	–
Balance at June 30/December 31	208,151	284,335

(i) The fair value of the contingent consideration notes payable had decreased by RMB15,842,000 from the interest winding-up.

(ii) According to the sales and purchase agreement (the “SPA”), the Group was required to issue 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 August 15, 2018 (the “GH Acquisition Date”). The face value of the “First Promissory Note” on the GH Acquisition Date is HK\$ 200,000,000. During the six months ended June 30, 2019, the Group partially redeemed the first HK\$100,000,000 principal of the “First Promissory Note” by cash. On March 15, 2019, the payment due date of the remaining HK\$100,000,000 principal of the “First Promissory Note” was extended to August 14, 2020 and was reclassified to non-current liabilities.

Notes to the Unaudited Interim Financial Report *(continued)*

(Expressed in Renminbi unless otherwise indicated)

16 CONVERTIBLE BONDS

	2019 RMB'000	2018 RMB'000
Balance as at January 1	120,502	–
Fair value of convertible bonds issued	–	131,130
Payment for interest of convertible bonds	(2,643)	–
Re-measurement on convertible bonds:		
– Exchange difference	4	50
– Fair value gain	(8,360)	(10,678)
Balance at June 30/December 31	109,503	120,502

The Group's convertible bond is valued by an independent external valuation firm, by using the Income Approach, with the following key assumptions:

	At issue date	At June 30, 2019	At December 31, 2018
Discount rate	18.40%	15.20%	18.28%
Volatility	57.28	47.27	45.47
Dividend yield	0.95%	1.22%	1.03%

17 EQUITY-SETTLED SHARE-BASED TRANSACTION

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

	At June 30, 2019		At December 31, 2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	USD0.0003	12,300,411	USD0.0003	12,670,529
Outstanding at the beginning of the year	HK\$1.71	15,500,000	HK\$1.71	–
Exercised during the year	USD0.0003	(11,436,824)	USD0.0003	(370,118)
Granted during the year	HK\$1.71	–	HK\$1.71	15,500,000
Outstanding at the end of the year	USD0.0003	863,587	USD0.0003	12,300,411
Outstanding at the end of the year	HK\$1.71	15,500,000	HK\$1.71	15,500,000
Exercisable at the end of the year	USD0.0003	863,587	USD0.0003	12,300,411
Exercisable at the end of the year	HK\$1.71	1,125,000	HK\$1.71	1,125,000

- (i) On January 15, 2019, 12 employees exercised options to subscribe for 11,436,824 shares at the exercise price of US\$0.0003 per share.

Notes to the Unaudited Interim Financial Report (continued)

(Expressed in Renminbi unless otherwise indicated)

18 CAPITAL AND RESERVES

(a) Dividends

The Board of Directors did not recommend the payment of an interim dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

(b) Share capital

(i) Authorised and issued shares capital

	Par value HK\$	No. of shares '000	HK\$ '000
Authorised shares at June 30, 2019:			
Ordinary shares, issued and fully paid			
At January 1, 2018 and July 1, 2018	0.0001	810,877	81
Issue of shares under share option plan	0.0001	370	–
At December 31, 2018	0.0001	811,247	81
RMB equivalent ('000)			71
At January 1, 2019	0.0001	811,247	81
Issue of shares under share option plan (note 17(i))	0.0001	11,437	1
Issue of shares upon settlement of contingent consideration (note)	0.0001	16,435	2
At June 30, 2019	0.0001	839,119	84
RMB equivalent ('000)			73

Note: On June 14, 2019, 16,434,826 ordinary shares were issued to the vendor of NM Technology pursuant to a sales and purchase agreement dated March 15, 2018, with a fair value of HK\$0.71 per share, as final settlement of the contingent consideration payable for the performance year of 2018. An amount of HK\$2,000 (equivalent to RMB1,000) representing the par value of the shares, were credited to the Company's share capital. The excess amount of HK\$10,003,000 (equivalent to RMB8,803,000) over the par value of ordinary shares issued were credited to share premium.

19 RELATED PARTY TRANSACTIONS

	Six months ended June 30,	
	2019 RMB'000	2018 RMB'000
Recurring transactions:		
Properties premises rental expenses paid to		
Wang Shiguang, a director of the Company	724	724

20 COMPARATIVE FIGURES

The Group has adopted HKFRS 16 at January 1, 2019. Under the modified retrospective approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.