Putian Communication Group Limited
普天通信集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1720)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017, the Group's operating results were summarised as follows:

- Total revenue increased by approximately 32.8% to approximately RMB621.3 million (2016: approximately RMB467.9 million).
- Gross profit increased by approximately 38.5% to approximately RMB154.3 million (2016: approximately RMB111.4 million).
- Gross profit margin increased by approximately 1.0% to approximately 24.8% (2016: approximately 23.8%).
- Profit for the year attributable to owners of the Company increased by approximately 11.5% to approximately RMB58.1 million (2016: approximately RMB52.1 million).
- The Group's revenue from sale of optical fiber cables increased by approximately 50.1% to approximately RMB243.6 million (2016: approximately RMB162.3 million); revenue from sale of structured cabling system products increased by approximately 115.1% to approximately RMB122.8 million (2016: approximately RMB57.1 million); revenue from sale of communication copper cables slightly increased by approximately 2.6% to approximately RMB254.9 million (2016: approximately RMB248.5 million).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

The board (the "**Board**") of directors (the "**Directors**") of Putian Communication Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 (the "**Year**"), together with the comparative figures for the year ended 31 December 2016 (the "**Last Year**"). The annual results have been reviewed by the audit committee of the Company and approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*4*	**621,281**	467,919
Cost of sales		**(466,975)**	(356,559)
Gross profit		**154,306**	111,360
Other income		**432**	105
Selling and distribution expenses		**(24,245)**	(17,154)
Administrative expenses		**(51,999)**	(28,880)
Finance costs	*5*	**(5,142)**	(2,287)
Profit before income tax expense	*6*	**73,352**	63,144
Income tax expense	*7*	**(15,301)**	(11,045)
Profit for the year		**58,051**	52,099
Profit for the year attributable to:			
Owners of the Company		**58,051**	52,102
Non-controlling interests		**–**	(3)
Profit for the year		**58,051**	52,099
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,129)**	–
Other comprehensive income for the year, net of tax		**(2,129)**	–
Profit and total comprehensive income for the year		**55,922**	52,099
Earnings per share			
Basic and diluted	*8*	**RMB0.067**	RMB0.064

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**106,940**	98,384
Prepaid land lease payment		**12,038**	12,327
Other non-current assets		**–**	353
		118,978	111,064
Current assets			
Prepaid land lease payment		**289**	289
Inventories		**72,868**	41,582
Trade and bills receivables	*9*	**171,779**	145,864
Deposit, prepayments and other receivables		**11,539**	8,627
Amount due from a director	*10*	**–**	4,335
Restricted cash	*11*	**50**	480
Cash and cash equivalents		**108,583**	14,311
		365,108	215,488
Current liabilities			
Trade and bills payables	*12*	**22,383**	35,990
Accruals, deposits received and other payables		**15,186**	9,676
Provision for taxation		**3,139**	2,962
Bank borrowings	*13*	**61,834**	48,000
		102,542	96,628
Net current assets		**262,566**	118,860
Total assets less current liabilities		**381,544**	229,924

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Non-current liability			
Other borrowings	*13*	**51,732**	–
Deferred tax liability		**6,363**	4,009
		58,095	4,009
Net Assets		**323,449**	225,915
EQUITY			
Share capital	*14*	**9,361**	66
Reserves		**314,088**	225,849
Total Equity		**323,449**	225,915

Notes:

1. GENERAL INFORMATION

Putian Communication Group Limited ("the **Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies laws. The Company was listed on the Stock Exchange of Hong Kong Limited on 9 November 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at PRC. The Group, comprising the Company and its subsidiaries, is principally engaged in production and sale of optical fiber cables, communication copper cables and structured cabling system products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Adoption of new/revised HKFRSs – effective 1 January 2017

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("the **HKICPA**"), which are effective for the Group's financial year beginning on or after 1 January 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has no impact on these financial statements.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements.

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

3.1 Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

3.3 Functional and presentation currency

The functional currency of the Company is Renminbi ("**RMB**"), which is same as the presentation currency of the consolidated financial statements.

4. REVENUE AND SEGMENT REPORTING

The Group is principally engaged in production and sale of optical fiber cables, communication copper cables and structured cabling system products. Revenue represents the fair value of the consideration received or receivable from the sale value of goods supplied to customers net of discounts, customers' returns, other similar allowances and sales related taxes during the year.

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely optical fiber cables, communication copper cables and structured cabling system products. No operating segments have been aggregated to form the above reportable segments.

- Optical fiber cables: manufacturing and sales of optical fiber cables.
- Communication copper cables: manufacturing and sales of communication copper cables.
- Structured cabling system products: manufacturing and sales of structured cabling system products.

(i) Segment results

Information regarding the Group's reportable segments for the Year is set out below:

For the Year

	Optical fiber cables *RMB'000*	Communication copper cables *RMB'000*	Structured cabling system products *RMB'000*	Total *RMB'000*
Revenue from the Group's external customers	**246,557**	**278,361**	**124,163**	**649,081**
Inter-segment revenue	**(2,965)**	**(23,468)**	**(1,367)**	**(27,800)**
Reportable segment revenue	**243,592**	**254,893**	**122,796**	**621,281**
Reportable segment profit	**41,937**	**28,903**	**38,701**	**109,541**

For the Last Year

	Optical fiber cables *RMB'000*	Communication copper cables *RMB'000*	Structured cabling system products *RMB'000*	Total *RMB'000*
Revenue from the Group's external customers	172,822	261,528	57,713	492,063
Inter-segment revenue	(10,480)	(13,056)	(608)	(24,144)
Reportable segment revenue	162,342	248,472	57,105	467,919
Reportable segment profit	29,763	30,874	15,681	76,318

(ii) Geographic information

No geographical segment information is shown as, during the year then ended presented, less than 10% of the Group's segment revenue, segment results and segment assets are derived from activities conducted outside People's Republic of China ("**PRC**").

(iii) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Group's revenue during the year then ended, is set out below:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Customer A	**342,670**	265,939
Customer B	**175,602**	161,239

	Year ended 31 December 2017		Year ended 31 December 2016	
	Customer A	**Customer B**	Customer A	Customer B
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Optical fiber cables	**121,555**	**89,606**	150,842	2,335
Communication copper cables	**215,001**	**9,805**	114,578	110,350
Structured cabling system products	**6,114**	**76,191**	519	48,554
	342,670	**175,602**	265,939	161,239

Note: Other than Customer A and Customer B, no any other single external customer amount to 10% or more of an entity's revenues.

5. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest charge on bank and other borrowings	**5,147**	2,378
Less: Amount capitalised	**(5)**	(91)
	5,142	2,287

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Auditors' remuneration	**675**	31
Amortisation of prepaid land lease payment	**289**	289
Cost of inventories recognised as expenses	**427,753**	322,114
Research and development expenditure	**18,664**	15,422
Depreciation of property, plant and equipment	**11,017**	9,661
Gain on disposal of a subsidiary	**–**	(13)
Loss on disposal of property, plant and equipment	**593**	19
Operating lease rental in respect of:		
– Rented premises	**1,058**	506
Listing expenses	**16,085**	1,904
Staff costs (including directors' emoluments):		
– Salaries and wages	**24,432**	18,293
– Defined contribution scheme	**3,822**	2,603
	28,254	20,896

7. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Tax for the current year	**13,593**	9,760
Over-provision for prior year	**(646)**	(430)
	12,947	9,330
Deferred tax		
Charge to profit or loss for the year	**2,354**	1,715
	15,301	11,045

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2017 (2016: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25%.

Putian Cable Group Co., Ltd, one of the subsidiaries of the Company, is entitled to a preferential income tax rate of 15% for the year ended 31 December 2017 and 2016, as it was awarded high-technology status by tax authority.

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax expense	**73,352**	63,144
Tax calculated at the applicable tax rate of 25% (2016: 25%)	**18,338**	15,786
Effect of different tax rates	**(9,595)**	(6,659)
Tax effect of expenses not deductible for tax purposes	**3,684**	360
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,402)**	(1,152)
Deferred tax on undistributed earnings of PRC subsidiaries	**2,354**	1,715
Effect of tax losses not recognised	**1,262**	37
Others	**660**	958
Income tax expense	**15,301**	11,045

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB58,051,000 (2016: RMB52,099,000) and the weighted average of 862,520,000 shares (2016: 815,004,000 shares) in issue during the year, calculated as follows:

Earnings

	Year ended 31 December	
	2017	2016
	RMB	*RMB*
Earnings for the purposes of basic earnings per share	**0.067**	0.064

Number of share

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**862,520,000**	815,004,000

There were no potential dilutive ordinary shares during the years ended 31 December 2017 and 2016 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**171,724**	145,864
Bills receivables	**55**	–
	171,779	145,864

The ageing analysis of trade and bills receivables (net of impairments) as at the end of each reporting period based on invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**62,679**	49,845
31 – 60 days	**58,586**	62,728
61 – 90 days	**25,577**	10,547
91 – 180 days	**20,976**	18,455
181 – 365 days	**3,961**	3,122
> 365 days	**–**	1,167
	171,779	145,864

The Group has a policy of granting trade customers with credit terms of generally 180-360 days. The ageing analysis of the Group's trade and bills receivables that are neither individually nor collectively considered to be impaired, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**171,779**	144,697
Past due for less than 1 year	**–**	1,167
	171,779	145,864

Trade and bills receivables of RMBNil (2016: approximately RMB1,167,000) were past due but not impaired as at 31 December 2017 respectively. The balances related to the customers have no recent history of default. In general, the Group does not hold any collateral or other credit enhancements over these balances.

10. AMOUNT DUE FROM A DIRECTOR

Particulars of the amount due from a director:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Amount due from a director:		
Ms. Wang Qiu Ping	**–**	4,335
Maximum balance outstanding:		
– During the year		
Ms. Wang Qiu Ping	**20,444**	4,335

The amount due from a director was not trade related, and the balance was unsecured, interest-free and repayable on demand.

11. RESTRICTED CASH

Restricted cash are deposits with certain banks as guarantee deposits against the revolving loan facilities granted by the banks to maintain the Group's daily operations.

12. TRADE AND BILLS PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**22,383**	31,381
Bills payables	**–**	4,609
	22,383	35,990

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 60 days, and bills payables maturity period is normally within 180 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade and bills payables as at the end of each reporting period is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**21,652**	28,099
31 – 60 days	**417**	4,079
61 – 90 days	**177**	–
91 – 180 days	**39**	3,773
181 – 365 days	**55**	39
> 365 days	**43**	–
	22,383	35,990

The trade and bills payables are short-term and hence the carrying values of the Group's trade and bills payables are considered to be a reasonable approximation of fair value.

Credit period granted by trade creditors is normally 30 days to 60 days, and bills payables maturity period is normally within 180 days. The following is an analysis of trade and bills payables by age based on due date.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Neither past due	**22,181**	35,953
Overdue for less than 1 year	**202**	37
	22,383	35,990

The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

13. BANK AND OTHER BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current		
Secured bank borrowings:		
Repayable within one year (i) (ii)	**61,834**	45,000
Unsecured bank borrowings:		
Repayable within one year (i) (ii)	**–**	3,000
	61,834	48,000
Non-current		
Other borrowings (iii)	**51,732**	–
	51,732	–

(i) The bank borrowings with effective interest rate is 6.32 % (2016: 4.81%) per annum.

(ii) The bank borrowings are secured by the following:

- Corporate guarantees from the Group;
- Legal charges over the personal properties owned by substantial shareholders of the Group of RMBNil (2016: RMB30.0 million) for the year ended 31 December 2017; and
- Legal charges over the personal properties owned by the family member of a substantial shareholder of the Group of RMBNil (2016: RMB15.0 million) for the year ended 31 December 2017.

(iii) The Group entered into two loan agreements with independent third parties on 29 July 2017, with the total loan in a principal amount of RMB50.0 million with a fixed interest rate of 8.16% per annum and the Group shall repay the loans in one instalment and pay the accrued interest on the maturity date, 30 June 2019. The interest started to accrue on 31 July 2017, the date on which the Group received the proceeds of the loans. Under both loan agreements, the Group undertakes that it shall not change the use of the loan proceeds without creditors' prior approval and guarantees that the loan is senior in right of payment to all other unsecured creditors of the Group immediately after the disposal of the secured assets in the event of cross default.

At 31 December, total current and non-current bank loans were scheduled to repay as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
On demand or within one year	**61,834**	48,000

At 31 December, total current and non-current other borrowings were scheduled to repay as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
More than one year, but not exceeding two years	**51,732**	–

14. SHARE CAPITAL

		2017		2016	
		Number	**Amount**	Number	Amount
	Notes	***'000***	***RMB'000***	*'000*	*RMB'000*
Authorised:					
Initial authorised share capital upon incorporation	*(ii)*	**10**	**66**	10	66
Repurchase of share	*(iii)*	**(10)**	**(66)**	–	–
Subdivision of share capital	*(iii)*	**38,000**	**336**	–	–
Increase in share capital upon capitalisation	*(v)*	**2,962,000**	**25,198**	–	–
		3,000,000	**25,534**	10	66
Issued and fully paid:					
At 1 January	*(i)*	**10**	**66**	10	66
Repurchase of share	*(iii)*	**(10)**	**(66)**	–	–
Allotment of shares	*(iv)*	**10,000**	**88**	–	–
Issue of ordinary shares upon capitalisation	*(vi)*	**815,000**	**6,934**	–	–
Issue of ordinary shares upon placing of shares	*(vii)*	**275,000**	**2,339**	–	–
At 31 December		**1,100,000**	**9,361**	10	66

Notes:

(i) The issued capital of the Group as at 1 January 2016 represent the consolidated share capital of Putian Communication Group Limited as the Company had not been incorporated and the reorganisation was not completed.

(ii) The Company was incorporated as exempted company under the laws of the Cayman Islands with limited liability on 19 August 2016 with authorised share capital of US$10,000 dividend into 10,000 shares of US$1.00 each and issued 10,000 shares of US$10,000.

(iii) On 27 March 2017, the authorised share capital of the Company was increased by HK$380,000 by the creation of 38,000,000 shares of par value of HK$0.01 each so that immediately following the increase, the authorised share capital of the Company became the aggregate of US$10,000 divided into 10,000 shares of par value of US$1.00 each and HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each.

Following the aforesaid increase, Point Stone Capital and Arcenciel Capital subscribed for 3,822,000 and 3,978,000 shares of HK$0.01 each at par respectively which were allotted and issued as fully paid up. Following the aforesaid allotment and issue, the Company repurchased all of the 4,900 and 5,100 issued shares of US1.00 each from Point Stone Capital and Arcenciel Capital respectively at a price of US$1.00 for each share out of the proceeds from the aforesaid issue of new shares of HK$0.01 each to Point Stone Capital and Arcenciel Capital. All of the repurchased 10,000 shares of US$1.00 each were canceled and the authorised but unissued share capital of the Company was diminished by the cancelation of all of the unissued shares of US$1.00 par value each of the Company. Accordingly, the authorised share capital of the Company became HK$380,000 divided into 38,000,000 shares and the issued share capital of the Company became HK$78,000 divided into 7,800,000 shares.

(iv) On 27 March 2017, the Company further allotted and issued 2,200,000 shares to its shareholders at par value. Accordingly, the issued shares became HK$100,000 (equivalent to approximately RMB88,000) divided into 10,000,000 shares.

(v) The authorised share capital was increased from HK$380,000 to HK$30,000,000 by the creation of a further 2,962,000,000 shares.

(vi) Pursuant to written resolutions passed on 21 October 2017, conditional upon the share premium account of the Company having sufficient balances, or otherwise being credited by way of share offering, the directors were authorised to allot and issue a total of 815,000,000 shares credited as fully paid at par by way of capitalisation of the sum of HK$8,150,000 (equivalent to approximately RMB6,934,000) standing to the credit of the share premium account of the Company.

(vii) On 9 November 2017, 275,000,000 ordinary shares of HK$0.01 each of the Company issued at a price of HK$0.66 through Share Offering. On the same date, the Company's ordinary shares were posted on the Stock Exchange. The proceeds of HK$2,750,000 (equivalent to approximately RMB2,341,000) representing the par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$178,750,000 (equivalent to approximately RMB152,063,000), before issuing expenses of approximately RMB14,840,000, were credited to share premium account.

(viii) The Group Reorganisation was completed on 27 March 2017. For the purpose of this announcement, the share capital in the Group's consolidated statements of financial position as at 31 December 2017 and 2016 represented the share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OUTLOOK

In 2017, the "Broadband China" Strategic Implementation Plan and "Internet Plus" ("互聯網+") initiative were widely carried out in the PRC. Around the world, major countries and telecom operators had announced 5G construction and commercial plans. 5G technology standards have been gradually launched. In 2018, 5G is trended to be commercialised which is expected to stimulate substantial investment in the construction of global communications infrastructure. We expect the demand for optical fibers and optical fiber cables remains strong and anticipate a rapid growth in the communication cable industry in the coming years.

To capture the business opportunities and achieve a sustainable competitive advantage, we will further strengthen and improve the Group's market position in the value chain of optical fiber cable production through the following strategies:

- increasing market shares in optical fiber cables through enhancing production capacity and further strengthening customer relationships;

- refining the product mix by focusing on the segments with high growth potential and profit margins;

- expanding the Group's business into the production of optical fibers through backward vertical integration; and

- expanding the product offerings and strengthening the Group's research and development capabilities.

After the end of the Year, the Group had entered into (i) two equipment acquisition contracts with a PRC manufacturer (the "**Manufacturer**") pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the optical fiber production facilities at a total consideration of approximately RMB60.9 million and (ii) a technology agreement pursuant to which the Manufacturer agreed to provide services and technical support to the Group for the setting up of an optical fiber factory at a total service fee of RMB12.0 million. Through backward expansion to optical fiber production, we expect that this will stabilise the raw material supply which will in turn better control the production cost and further enhance the gross profit margin of the Group.

BUSINESS REVIEW

The Group has accomplished a good financial result for the Year. It recorded a revenue of approximately RMB621.3 million which represented a growth of approximately 32.8% as compared with the revenue for the Last Year. The Group has realised a gross profit of approximately RMB154.3 million for the Year, which represented a growth of approximately 38.5% as compared to the one for the Last Year. Profit for the Year attributable to owners of the Company was approximately RMB58.1 million, which represents an increase of approximately 11.5% as compared with the one for the Last Year.

The significant increase in revenue was mainly attributable to the sale of optical fiber cables which was increased by approximately 50.1% to approximately RMB243.6 million (2016: approximately RMB162.3 million) and the sale of structured cabling system products which was increased by approximately 115.1% to approximately RMB122.8 million (2016: approximately RMB57.1 million). In July 2017, the Group completed the construction of the first phase of its second production site, Yaohu Factory and commenced the operation of four new production lines for optical fiber cables. The Group's aggregate annual production capacity for optical fiber cables had been significantly enlarged from approximately 1.2 million fkm in 2016 to approximately 5.6 million fkm in 2017. Supported by the enlarged capacity, the Group is able to compete for large tenders and has been rewarded more orders from the major telecommunications network operators in the PRC.

In June 2017, the Group has been selected by one of its major customers as one of their optical fiber cable suppliers in 2017-2018 under their centralised procurement. According to the tender award confirmation, the total sales amount of optical fiber cables in 2017-2018 will amount to approximately RMB330.0 million. This tender has contributed approximately RMB101.5 million of sale of optical fiber cables for the Year and is expected to contribute approximately RMB228.5 million of sale of optical fiber cables for the coming year.

It is expected that the market demand for optical fiber cables in the PRC will continue to increase as a result of the favorable government policy. To achieve continuous business growth, the Group intends to increase market share through strengthening its relationships with key customers, in particular major telecommunications network operators in the PRC, and increasing penetration of its products through continuous upgrading and development of new products.

The Group is devoted to expanding its non-operator customers base and penetrating in its structured cabling system products business. It has sales representatives in 24 cities nationwide targeting a broad range of communication system solution providers and construction contractors in the PRC for its structured cabling system products. In addition, the Group also organises various seminars and conferences from time to time to promote its brand awareness so as to increase its market share. Such strategy has been proved to be successful and led the Group to a robust growth in its structured cabling system products business for the Year.

In respect of the copper communication cable business, given the decreasing demand and stringent safety and environmental standards requirements, we note that large number of smaller communication copper cable manufacturers have been washed out and their market shares have been taken up by remaining manufacturers who have stronger capital and technical capacities. The Group has been benefited from this trend. Its revenue generated from sale of communication copper cables slightly increased by approximately 2.6% from approximately RMB248.5 million for the Last Year to approximately RMB254.9 million for the Year. The proportion of revenue contributed from the sales of communication copper cable decreased from approximately 53.1% for the Last Year to approximately 41.0% for the Year as the Group has reserved more resources to expand its business in optical fiber cables segment and structured cabling systems products segment and has successfully recorded a rapid growth in these two segments for the Year.

FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fiber cables, communication copper cables and structured cabling system products, which represent three reportable segments, respectively. Revenue of the Group increased by approximately 32.8% from approximately RMB467.9 million for the Last Year to approximately RMB621.3 million for the Year. Among which, revenue derived from sale of optical fiber cables increased by approximately 50.1% from approximately RMB162.3 million for the Last Year to approximately RMB243.6 million for the Year; revenue derived from structured cabling system products increased by approximately 115.1% from approximately RMB57.1 million for the Last Year to approximately RMB122.8 million for the Year; revenue derived from sale of communication copper cables slightly increased by approximately 2.6% from approximately RMB248.5 million for the Last Year to approximately RMB254.9 million for the Year.

Gross profit and margin

Gross profit increased by approximately 38.5% to approximately RMB154.3 million for the Year from approximately RMB111.4 million for the Last Year, while the Group's gross profit margin was approximately 24.8% for the Year as compared to the one of approximately 23.8% for the Last Year. The increase in gross profit margin was primarily because a larger portion of revenue was generated from optical fiber cables and structured cabling system products which have a higher profit margin.

Other income

Other income increased by approximately 311.4% from approximately RMB105,000 for the Last Year to approximately RMB432,000 for the Year, primarily due to bank interest income increased by approximately RMB182,000 and exchange gains increased by approximately RMB108,000.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 40.7% from approximately RMB17.2 million for the Last Year to approximately RMB24.2 million for the Year. Primarily due to (i) an increase of approximately RMB4.0 million in transportation fees as a result of the increase of customer orders; and (ii) an increase of approximately RMB3.7 million in salaries and welfare expenses for our selling and marketing staff, reflecting our strengthened marketing efforts. Selling expenses as a percentage of our revenue remained stable, which was approximately 3.9% for the Year as compared to approximately 3.7% for the Last Year.

Administrative expenses

Administrative expenses increased by approximately 79.9% from approximately RMB28.9 million for the Last Year to approximately RMB52.0 million for the Year, primarily due to (i) an increase of approximately RMB2.0 million in salaries and welfare expenses as a result of the hire of additional administrative personnel and the increased average salaries; (ii) an increase of approximately RMB3.3 million in research and development expenses as the Group put strengthened efforts on researching project in developing new type of products and improving the Group's production efficiency; and (iii) an increase of approximately RMB14.2 million in listing fee in connection with the Share Offering.

Research and development expenses increased by approximately 21.4% from approximately RMB15.4 million for the Last Year to approximately RMB18.7 million for the Year. The increase was mainly due to more research and development efforts employed for new product development. Research and development expenses as a percentage of the Group's total revenue remained stable, which was approximately 3.0% for the Year as compared to approximately 3.3% for the Last Year.

Finance costs

Finance costs increased by approximately 121.7% from approximately RMB2.3 million for the Last Year to approximately RMB5.1 million for the Year primarily due to (i) additional borrowings of RMB50.0 millions from independent third parties to repay the amount due to controlling shareholders resulting from the reorganisation for the Share Offering and (ii) an increase of bank loans to finance the daily operation of the Group. The Group borrowed from independent third parties instead of banks because it would be more flexible for the Group to negotiate with a lender other than banks in terms of time spent and quality of collateral required.

Income tax expense

Income tax expenses increased by approximately 39.1% from approximately RMB11.0 million for the Last Year to approximately RMB15.3 million for the Year, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 20.9% and approximately 17.5% for the Year and the Last Year respectively.

Profit and total comprehensive income

Profit and total comprehensive income for the Year increased by approximately 11.5% from approximately RMB52.1 million for the Last Year to approximately RMB58.1 million for the Year.

Liquidity, financial and capital resources cash position

As at 31 December 2017, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB108.6 million (2016: approximately RMB14.8 million), representing an increase of approximately 633.8% as compared to that as at 31 December 2016. As at 31 December 2017, the Group had restricted cash of RMB50,000 (2016: RMB480,000) that was pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2017, the Group had bank borrowings of approximately RMB61.8 million which were secured by legal charge over the properties of the Group and corporate guarantees from the Group. All bank borrowings are repayable within one year.

As at 31 December 2016, the Group had bank borrowings of approximately RMB48.0 million and which were secured by legal charge over the properties of the Group and the ones of controlling shareholders and their associates. All bank borrowings were repayable within one year.

In addition to bank borrowings, on 29 July 2017, the Group obtained loans from independent third parties in an amount of RMB50.0 million to repay the amount due to controlling shareholders resulting from the reorganisation of the Share Offering. The fixed interest rate of the loans is 8.16% per annum and the Group shall repay the loan in one installment and pay the accrued interest on the maturity date of 30 June 2019.

Gearing ratio

As at 31 December 2017, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.5 (2016: approximately 0.4).

Currency risk

While the Group's operations are principally in the PRC during the Year and it mainly made sales and incurred production costs and expenses in RMB, the Group has bank balance and listing expenses payable denominated in foreign currencies (Hong Kong dollar). The Group does not use any derivative contracts to hedge against its exposure to currency risk. However, the Directors manage the Group's foreign currency risk by closely monitoring the movement of the foreign currency rates.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities, mainly bank balances and borrowings which carried/bore prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the Group's consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The credit risk for restricted bank balances and bank balances is minimal as such amounts are placed in banks with good reputation.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

Capital Commitments

As at 31 December 2017, the Group had capital commitments of capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.4 million (2016: approximately RMB3.6 million).

Save for the reorganisation arrangements undergone by the Group in preparation for the Share Offering (hereinunder referred to as the "**Reorganisation**"), the Group did not have any material acquisitions and disposals for the Year.

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit. On 3 January 2018, the Group entered into the equipment acquisition contract with the Manufacturer pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the optical fiber production facilities at a total consideration of approximately RMB45.1 million. Subsequently, on 19 January 2018, the Group entered into with the Manufacturer (i) another equipment acquisition contract pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the additional optical fiber production facilities at a total consideration of RMB15.8 million; and (ii) the technology agreement pursuant to which the Manufacturer agreed to provide services and technical support to the Group for the setting up of an optical fiber factory at a total service fee of RMB12.0 million. These investments were funded by internal resources, external equity financing and/or borrowings and net proceeds from the Share Offering. Save as disclosed in the prospectus of the Company dated 27 October 2017 and in this announcement, the Group did not have any future plans for material investments as at the date of this announcement.

Employees, remuneration policies and Share Option Scheme

As at 31 December 2017, the Group had approximately 375 employees (2016: approximately 339 employees). For the Year, the Group incurred staff costs of approximately RMB28.3 million (2016: approximately RMB20.9 millions). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

USE OF PROCEEDS FROM THE SHARE OFFERING

On 9 November 2017 (the "**Listing Date**"), the Company issued 275,000,000 shares at an offer price of HK$0.66 per share through an initial public offering (the "**Share Offering**"). Upon completion of the Share Offering, the amount of net proceeds after deducting the underwriting fees and expenses payable by the Company in connection with the Share offering, is approximately HK$146.7 million (equivalent to approximately RMB124.5 million).

As at 31 December 2017, approximately RMB20.3 million of the net proceeds had been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised as at 31 December 2017**	**Unutilised as at 31 December 2017**
	%	*RMB million*	*RMB million*	*RMB million*
For the upstream vertical expansion into the optical fiber production	46.0%	57.3	–	57.3
For the settlement of partial payment for the four new optical fiber cable production lines	13.6%	16.9	13.8	3.1
For the enhancement of our structured cabling system products production equipment	12.5%	15.6	–	15.6
For financing our research and development of diversified new products and the production processes	8.9%	11.0	–	11.0
For repayment of part of our bank loans	10.6%	13.2	–	13.2
For working capital and other	8.4%	10.5	6.5	4.0
	100.0%	124.5	20.3	104.2

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the Year (2016: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained sufficient public float throughout the period from the Listing Date to 31 December 2017 as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time (the "**Listing Rules**").

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had sold, purchased or redeemed any of the Company's listed securities since the Listing Date.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. Save for the deviation as disclosed herein below, the Company has complied with the applicable code provisions as set out in the CG Code since the Listing Date.

Chairman of the Board and Chief Executive Officer

Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Ms. Wang Qiuping ("**Ms. Wang**") is the chairlady of the Board and the chief executive officer of the Company. Although this deviates from the practice under provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Ms. Wang has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interest of the Company and the Shareholders as a whole to continue to have Ms. Wang as the chairlady of the Board so that the Board can benefit from her knowledge of the business and her capability in leading the Board in the long-term development of the Group. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to monopolise the voting of the Board. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action is taken should the need arise.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made enquiries to all Directors regarding any non-compliance with the Model Code.

All the Directors confirmed that they have fully complied with the required standard set out in the Model Code since the Listing Date and up to the end of the reporting period.

Audit committee

The Company established an audit committee (the "**Audit Committee**") on 21 October 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The duties of the Audit Committee include, without limitation, (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the financial statements, the annual report and accounts and the half-year report, and reviewing significant financial reporting judgements contained therein; and (c) reviewing our financial controls, internal control and risk management systems. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee consists of three independent non-executive Directors, namely, Ms. Cheng Shing Yan, Mr. Liu Guodong and Mr. Xie Haidong. Ms. Cheng Shing Yan who possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules is the chairlady of the Audit Committee. The quorum of meetings of the Audit Committee shall be any two members.

The Audit Committee will hold at least two meetings a year and will also meet the external auditor at least twice a year without the presence of the executive Directors. Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

Since the Listing Date and up to the date of this announcement, the Audit Committee had held a meeting, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the Year and this announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosure thereof.

Remuneration committee

The Company established a remuneration committee (the "**Remuneration Committee**") on 21 October 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code. The duties of the Remuneration Committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) making recommendations to the Board on the policy and structure for the remuneration of all of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments, and making recommendations to the Board of the remuneration of the independent non-executive Directors; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee consists of Mr. Liu Guodong, Ms. Cheng Shing Yan and Mr. Xie Haidong. Mr. Liu Guodong is the chairman of the Remuneration Committee. The quorum of meetings of Remuneration Committee shall be any two members.

The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management of the Group and other related matters. Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

Since the Listing Date and up to the date of this announcement, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

The Company established a nomination committee (the "**Nomination Committee**") on 21 October 2017 with written terms of reference in compliance with paragraph A.5 of the CG Code. The duties of the Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy; (b) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of the independent non-executive Directors; and (d) making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee consists of Mr. Xie Haidong, Ms. Cheng Shing Yan and Mr. Liu Guodong. Mr. Xie Haidong is the chairman of the nomination committee. The quorum of meetings of the Nomination Committee shall be any two members.

The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings. Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

Since the Listing Date and up to the date of this announcement, the Nomination Committee held a meeting which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

EVENTS AFTER THE REPORTING PERIOD

Acquisition of Optical Fiber Drawing Towers and Optical Fiber Production Lines and Services and Technology Support

On 3 January 2018, the Group entered into the equipment acquisition contract with the Manufacturer pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the optical fiber production facilities at a total consideration of approximately RMB45.1 million. Subsequent to the entering into of the equipment acquisition contract dated 3 January 2018, on 19 January 2018, the Group entered into with the Manufacturer (i) another equipment acquisition contract pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the additional optical fiber production facilities at a total consideration of RMB15.8 million; and (ii) the technology agreement pursuant to which the Manufacturer agreed to provide services and technical support to the Group for the setting up of an optical fiber factory at a total service fee of RMB12.0 million.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a resolution passed on 21 October 2017. From the date of the adoption of the Share Option Scheme and up to the end of the Year, no share option has been granted, or agreed to be granted, under the Share Option Scheme.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the Year have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

ANNUAL REPORT

The annual report of the Company for the Year will be despatched to the shareholders and made available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.potel-group.com) in due course.

By order of the Board
Putian Communication Group Limited
Wang Qiuping
Chairlady

The PRC, 29 March 2018

As at the date of this announcement, the Board comprises Ms. Wang Qiuping, Mr. Zhao Xiaobao and Ms. Zhao Moge as executive Directors; and Ms. Cheng Shing Yan, Mr. Liu Guodong and Mr. Xie Haidong as independent non-executive Directors.