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 2018

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the Group's operating results were as follows:

- Total revenue increased by approximately 26.4% to approximately RMB785.0 million (2017: approximately RMB621.3 million).
- Gross profit increased by approximately 27.4% to approximately RMB196.5 million (2017: approximately RMB154.3 million).
- Gross profit margin slightly increased by approximately 0.2% to approximately 25.0% (2017: approximately 24.8%).
- Profit for the Year attributable to owners of the Company significantly increased by approximately 46.3% to approximately RMB85.0 million (2017: approximately RMB58.1 million).
- The Group's revenue from sale of optical fiber cables increased by approximately 29.8% to approximately RMB316.2 million (2017: approximately RMB243.6 million); revenue from sale of structured cabling system products significantly increased by approximately 45.1% to approximately RMB178.2 million (2017: approximately RMB122.8 million); and revenue from sale of communication copper cables increased by approximately 14.0% to approximately RMB290.6 million (2017: approximately RMB254.9 million).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 2018 (the "**Year**"), together with the comparative figures for the year ended 31 December 2017 (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 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue	*4*	**784,997**	621,281
Cost of sales		**(588,544)**	(466,975)
Gross profit		**196,453**	154,306
Other income		**371**	432
Selling and distribution expenses		**(34,484)**	(24,245)
Administrative expenses		**(50,916)**	(51,999)
Expected credit losses on financial assets		**(614)**	–
Finance costs	*5*	**(6,132)**	(5,142)
Profit before income tax expense	*6*	**104,678**	73,352
Income tax expense	*7*	**(19,685)**	(15,301)
Profit for the year		**84,993**	58,051
Profit for the year attributable to the owners of the Company		**84,993**	58,051
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,941)**	(2,129)
Other comprehensive income for the year, net of tax		**(1,941)**	(2,129)
Profit and total comprehensive income for the year		**83,052**	55,922
Earnings per share			
Basic and diluted	*8*	**RMB0.077**	RMB0.067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**119,153**	106,940
Prepaid land lease payment		**11,749**	12,038
Prepayment for property, plant and equipment and intangible assets	*9*	**60,257**	–
Total non-current assets		**191,519**	118,978
Current assets			
Prepaid land lease payment		**289**	289
Inventories		**70,607**	72,868
Trade and bills receivables	*10*	**229,710**	171,779
Deposits, prepayment and other receivables		**34,148**	11,539
Restricted cash	*11*	**16,166**	50
Cash and cash equivalents		**89,201**	108,583
Total current assets		**440,121**	365,108
Total assets		**631,640**	484,086
Current liabilities			
Trade and bills payables	*12*	**68,715**	22,383
Contract liabilities	*13*	**3,761**	–
Accruals, deposits received and other payables		**15,164**	15,186
Amount due to a director	*14*	**1,746**	–
Provision for taxation		**3,843**	3,139
Bank and other borrowings	*15*	**43,469**	61,834
Total current liabilities		**136,698**	102,542
Net current assets		**303,423**	262,566
Total assets less current liabilities		**494,942**	381,544

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Other borrowings	*15*	**80,843**	51,732
Deferred tax liability		**9,133**	6,363
Total non-current liabilities		**89,976**	58,095
Total liabilities		**226,674**	160,637
NET ASSETS		**404,966**	323,449
EQUITY			
Share capital		**9,361**	9,361
Reserves		**395,605**	314,088
TOTAL EQUITY		**404,966**	323,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's 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.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as "the Group"). The consolidated financial statements were authorised for issue by the Directors on 29 March 2019.

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

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

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

A. *HKFRS 9 – Financial Instruments*

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 – Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

The following table summarises the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves and retained earnings as at 1 January 2018:

	RMB'000
Retained earnings	
Retained earnings as at 31 December 2017	161,092
Increase in expected credit losses ("**ECLs**") in trade and bills receivables *(note 2.1A(ii)(a))*	(1,796)
Effect of deferred tax arose from increase in ECLs	261
Restated retained earnings as at 1 January 2018	159,557

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade and bills receivables (that the trade and bills receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39** *RMB'000*	**Carrying amount as at 1 January 2018 under HKFRS 9** *RMB'000*
Trade, bills and other receivables	Loans and receivables *(note 2.1A(ii)(a) and (b))*	Amortised cost	176,391	174,595
Restricted cash	Loans and receivables	Amortised cost	50	50
Cash and cash equivalents	Loans and receivables	Amortised cost	108,583	108,583

(ii) *Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognised ECL for trade and bills receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade and bills receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowances as at 1 January 2018 was determined as follows for trade and bills receivables as follows:

As at 1 January 2018	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected credit loss rate (%)	1.1%	–	–	–	
Gross carrying amount (RMB'000)	171,779	–	–	–	171,779
Loss allowances (RMB'000)	1,796	–	–	–	1,796

The increase in loss allowances for trade and bills receivables upon the transition to HKFRS 9 as at 1 January 2018 was approximately RMB1,796,000. The loss allowances further increased for approximately RMB614,000 for trade and bills receivables during the year ended 31 December 2018.

(b) Impairment of other receivables

The Group conducted that the impact of ECLs on other receivables at amortised cost of the Group as at 1 January 2018 and during the year ended 31 December 2018 is insignificant.

As a result of above changes, the impact of the new HKFRS 9 impairment model in additional impairment allowance is as follows:

	RMB'000
Loss allowances as at 1 January 2018 under HKAS 39	–
Additional impairment recognised for trade and bills receivables	1,796
Loss allowances as at 1 January 2018 under HKFRS 9	1,796

(i) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(ii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position as at 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings/accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented as at 31 December 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

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.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated 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

The principal activities of the Group are the manufacturing and sale of optical fiber cables, communication copper cables and structured cabling system products.

Revenue from contracts with customers within the scope of HKFRS 15:

	2018	2017
	RMB'000	*RMB'000*
Optical fiber cables	**316,160**	243,592
Communication copper cables	**290,596**	254,893
Structured cabling system products	**178,241**	122,796
	784,997	621,281
Geographical markets:		
Mainland China	**784,997**	621,281
Timing of revenue recognition		
Goods transferred at a point in time	**784,997**	621,281

The following table provides information about trade and bills receivables and contract liabilities from contracts with customers.

	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*
Trade and bills receivables	**229,710**	169,983
Contract liabilities *(note 13)*	**3,761**	3,080

5. FINANCE COSTS

	2018 *RMB'000*	2017 *RMB'000*
Interest charge on bank and other borrowings	**6,132**	5,147
Less: Amount capitalised	**–**	(5)
	6,132	5,142

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2018 *RMB'000*	2017 *RMB'000*
Auditors' remuneration	**915**	675
Amortisation of prepaid land lease payment *(Note i)*	**289**	289
Cost of inventories recognised as expenses	**540,114**	427,753
Research and development expenditure	**24,837**	18,664
Depreciation of property, plant and equipment	**13,742**	11,017
Loss on disposal of property, plant and equipment	**–**	593
Operating lease rental in respect of:		
– Rented premises	**1,787**	1,058
Expected credit losses on financial assets	**614**	–
Listing expenses	**–**	16,085
Staff costs:		
– Salaries and wages	**35,489**	24,432
– Defined contribution scheme *(Note ii)*	**5,425**	3,822
	40,914	28,254

Note i: Amortisation of prepaid land lease payment for the year then ended was included in "Administrative expenses" on the face of the consolidated statements of profit or loss and other comprehensive income.

Note ii: The Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiary of the Group in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

7. INCOME TAX EXPENSE

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

	2018	2017
	RMB'000	*RMB'000*
Current tax – Hong Kong Profits Tax		
Tax for the current year	**–**	–
Current tax – PRC EIT		
Tax for the current year	**16,654**	13,593
Over-provision for prior year	**–**	(646)
	16,654	12,947
Deferred tax		
Charge to profit or loss for the year	**3,031**	2,354
	19,685	15,301

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 2018 (2017: 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%.

Provision for the PRC Enterprise Income Tax ("**EIT**") for the year then ended was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

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 2018 and 2017, 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:

	2018	2017
	RMB'000	*RMB'000*
Profit before income tax expense	**104,678**	73,352
Tax calculated at the applicable tax rate of 25% (2017: 25%)	**26,170**	18,338
Effect of different tax rates	**(11,227)**	(9,595)
Tax effect of expenses not deductible for tax purposes	**580**	3,684
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,829)**	(1,402)
Deferred tax on undistributed earnings of PRC subsidiaries	**3,031**	2,354
Effect of tax losses not recognised	**2,934**	1,262
Others	**26**	660
Income tax expense	**19,685**	15,301

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB84,993,000 (2017: approximately RMB58,051,000) and the weighted average of 1,100,000,000 shares (2017: 862,520,000 shares) in issue during the year, calculated as follows:

Earnings per share

	2018	2017
	RMB	*RMB*
Basic earnings per share	**0.077**	0.067

Number of share

Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,100,000,000**	862,520,000

There were no potential dilutive ordinary shares during the years ended 31 December 2018 and 2017 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9. PREPAYMENT FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2018	2017
	RMB'000	*RMB'000*
Prepayment for property, plant and equipment	**56,861**	–
Prepayment for intangible assets	**3,396**	–
	60,257	–

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**231,799**	171,724
Bills receivables *(Note)*	**321**	55
	232,120	171,779
Less: Loss allowance	**(2,410)**	–
	229,710	171,779

Note: Bills receivables represented outstanding commercial acceptance bills.

Based on the invoice dates, the ageing analysis of the Group's net amount of trade and bills receivables is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**63,231**	62,679
More than 1 month but within 2 months	**61,384**	58,586
More than 2 months but within 3 months	**39,281**	25,577
More than 3 months but within 6 months	**60,059**	20,976
More than 6 months but within 1 year	**5,344**	3,961
More than 1 year	**411**	–
	229,710	171,779

The credit term granted by the Group to its trade customers is normally 181 days to 360 days.

The movement in the loss allowances for trade and bills receivables is as follows:

	RMB'000
Carrying amount as at 1 January 2018	**–**
Effect of adoption of HKFRS 9	**1,796**
Carrying amount as at 1 January 2018 (restated)	**1,796**
Expected credit losses recognised	**614**
Carrying amount as at 31 December 2018	**2,410**
Carrying amount as at 31 December 2017	**–**

11. RESTRICTED CASH

Bank deposits have been pledged as security for bills payables (Note 12). The restricted cash will be released upon the settlement of relevant bills payables.

12. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**36,399**	22,383
Bills payables	**32,316**	–
	68,715	22,383

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:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**27,534**	21,652
More than 1 month but within 2 months	**9,427**	417
More than 2 months but within 3 months	**760**	177
More than 3 months but within 6 months	**30,450**	39
More than 6 months but within 1 year	**382**	55
More than 1 year	**162**	43
	68,715	22,383

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.

The following is an analysis of trade and bills payables by age based on due date.

	2018	2017
	RMB'000	*RMB'000*
Neither past due	**68,524**	22,181
Overdue for less than 1 year	**191**	202
	68,715	22,383

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

13. CONTRACT LIABILITIES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities arising from:			
Sale of goods	**3,761**	3,080	–
	3,761	3,080	–

	2018
	RMB'000
Balance as at 1 January	**3,080**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year *(note 4)*	**(3,080)**
Increase in contract liabilities as a result of billing in advance of sales of goods *(note 4)*	**3,761**
Balance as at 31 December	**3,761**

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Accruals, deposits received and other payables" have been reclassified to "Contract liabilities".

14. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

15. BANK AND OTHER BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Current		
Secured bank borrowings:		
Repayable within one year [(i)] [(ii)]	**9,982**	61,834
Unsecured other borrowings:		
Other borrowings – due in June 2019 [(iii)]	**33,487**	–
	43,469	61,834
Non-current		
Unsecured other borrowings:		
Other borrowings – due in June 2019 [(iii)]	**–**	51,732
Secured other borrowings:		
Other borrowings – due in December 2020 [(iv)]	**80,843**	–
	80,843	51,732

Notes:

(i) The bank borrowings with effective interest rate is 5.66% (2017: 6.32%) per annum.

(ii) Legal charges over the personal properties owned by substantial shareholders of the Group of approximately RMB10.0 million (2017: Nil) for the year ended 31 December 2018.

(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. In October 2018 and November 2018, the Group settled other borrowings of RMB12.0 million and RMB8.0 million respectively.

(iv) On 28 December 2018, the Company as borrower entered into a loan agreement (the "**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") as lender in relation to a loan (the "**Loan**") with a total principal amount of up to HK$200,000,000. The first batch of the loan of HK$100,000,000 drawn on 28 December 2018. According to the Loan Agreement, unless the Company and the lender agree to extend for further one year, the Loan shall be fully repaid by the Company on 27 December 2020. Pursuant to the Loan Agreement, each of Ms. Wang Qiuping and Mr. Zhao Xiaobao, both being the controlling shareholders of the Company, provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents. Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital Co., Ltd and Point Stone Capital Co., Ltd, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms.Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel and Point Stone, representing the entire issued shares of Arcenciel and Point Stone, respectively, in favour of the Lender.

(v) The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

(vi) Other borrowing with AVIC Capital International Holdings Co., Limited is subject to the fulfilment of covenants relating to certain of the Group's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

(vii) The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that AVIC Capital International Holdings Co., Limited will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 31 December 2018, none (2017: none) of the covenants relating to drawn down facilities had been breached.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has accomplished a good financial result for the Year. It recorded a revenue of approximately RMB785.0 million which represented a growth of approximately 26.4% as compared with the one for the Last Year. The Group has realized a gross profit of approximately RMB196.5 million for the Year, which represented a growth of approximately 27.4% as compared to the one for the Last Year. Profit for the Year attributable to owners of the Company was approximately RMB85.0 million, significantly increased by approximately 46.3% as compared with the one for the Last Year.

The significant increase in revenue was mainly attributable to (i) the sale of optical fiber cables which was increased by approximately 29.8% to approximately RMB316.2 million (2017: approximately RMB243.6 million); (ii) the sale of structured cabling system products which was increased by approximately 45.1% to approximately RMB178.2 million (2017: approximately RMB122.8 million); and (iii) the sale of communication copper cables which was increased by approximately 14.0% to approximately RMB290.6 million (2017: approximately RMB254.9 million).

The Group has completed the construction of the first phase of its second production site, Yaohu Factory, which has significantly increased the Group's aggregate annual production capacity of optical fiber cables from approximately 1.2 million fkm to approximately 5.6 million fkm. 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. The Group has realized a growth rate above its market peers. To achieve a 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. In addition, the Group is going to expand its business into the production of optical fibers and through which to obtain control over optical fiber supply, improve supply chain efficiency and strive for better profit margin.

Expansion of the Group's structured cabling business is one of its important strategic focus. The Group has penetrated into the structured cabling market since 2012 and had the first mover advantage over its peers. The Group has established 26 sales representative offices nationwide targeting a broad range of communication system solution providers and constructions contractors in the PRC. With extensive experience in the production, research and development of cable products, the Group is able to offer extensive and high-quality structured cabling systems products to satisfy diverse demands of its customers in various application scenarios covering commercial buildings, smart residential compounds and security systems. During the year, the Group has organized various seminars and conferences to promote its brand awareness. 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. The Group adheres to a fine craftsmanship manufacturing concept. By virtue of "photoelectric mixing cable", "Security composite Cable", "Indoor armored soft fiber optical cable" supporting a series of structured cabling system products, the Group was awarded as one of the Top 10 structured cabling brands in the PRC by China Intelligent Building Magazine (《智能建築》雜誌) for 2018. The Group has been honored with this award every year since 2015.

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 increased by approximately 14.0% from approximately RMB254.9 million for the Last Year to approximately RMB290.6 million for the Year. The proportion of revenue contributed from the sales of communication copper cable decreased from approximately 41.0% for the Last Year to approximately 37.0% for the Year as the Group has reserved more resources to expand its business in optical fiber cable 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 26.4% from approximately RMB621.3 million for the Last Year to approximately RMB785.0 million for the Year. Among which, revenue derived from sale of optical fiber cables increased by approximately 29.8% from approximately RMB243.6 million for the Last Year to approximately RMB316.2 million for the Year; revenue derived from sale of structured cabling system products significantly increased by approximately 45.1% from approximately RMB122.8 million for the Last Year to approximately RMB178.2 million for the Year; and revenue derived from sale of communication copper cables increased by approximately 14.0% from approximately RMB254.9 million for the Last Year to approximately RMB290.6 million for the Year.

Gross profit and margin

Gross profit increased by approximately 27.4% to approximately RMB196.5 million for the Year from approximately RMB154.3 million in for the Last Year. The Group's gross profit margin was slightly improved to approximately 25.0% for the Year from approximately 24.8% for the Last Year. The improvement in gross profit margin was primarily because a larger portion of revenue was generated from optical fiber cables and structured cabling system products both of which have a higher profit margin.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 42.6% from approximately RMB24.2 million for the Last Year to approximately RMB34.5 million for the Year, primarily due to (i) an increase of approximately RMB4.6 million in transportation fees as a result of the increase of customer orders; and (ii) an increase of approximately RMB2.8 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 slightly increased, which was approximately 4.4% for the Year as compared to approximately 3.9% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB50.9 million for the Year, which remained stable as compared to the one of approximately RMB52.0 for the Last Year. The year-on-year movement mainly represented the aggregate effect of (i) a decrease of approximately RMB16.1 million in listing fee in connection with the Share Offering; (ii) an increase of approximately RMB6.2 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 RMB6.3 million in salaries and welfare expenses as a result of the hire of additional administrative personnel and the increased average salaries.

Finance costs

Finance costs increased by approximately 19.6% from approximately RMB5.1 million for the Last Year to approximately RMB6.1 million for the Year primarily arising from the borrowings of RMB50.0 million from independent third parties to repay the amount due to controlling shareholders resulting from the reorganisation for the Share Offering. Such borrowings incurred in July 2017 and RMB20.0 million out of which was repaid in the last quarter of the Year. 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 expense increased by approximately 28.8% from approximately RMB15.3 million for the Last Year to approximately RMB19.7 million for the Year, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 20.9% for the Last Year and approximately 18.8% for the Year.

Profit for the Year

Profit for the Year increased by approximately 46.3% from approximately RMB58.1 million for the Last Year to approximately RMB85.0 million for the Year.

Cash position

As at 31 December 2018, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB105.4 million (2017: approximately RMB108.6 million), representing a decrease of approximately 3.0% as compared to that as at 31 December 2017. As at 31 December 2018, the Group had restricted cash of approximately RMB16.2 million (2017: RMB50,000) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2018, the Group had bank borrowings of approximately RMB10.0 million which were secured by legal charge over the properties of the ones of controlling shareholders and their associates. All bank borrowings were repayable within one year. As at 31 December 2017, the Group had bank borrowing 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.

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 loans carried a fixed interest rate of 8.16% per annum and due on 30 June 2019. The Group has repaid RMB12.0 million and RMB8.0 million in October and November 2018 respectively.

On 28 December 2018, the Company as a borrower entered into a loan agreement (the "**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") as a lender in relation to a loan (the "**Loan**") with a total principal amount of up to HK$200,000,000. The first batch of the loan of HK$100,000,000 was drawn on 28 December 2018. According to the Loan Agreement, unless the Company and the lender agree to extend for further one year, the Loan shall be fully repaid by the Company on 27 December 2020. Pursuant to the Loan Agreement, each of Ms. Wang Qiuping ("**Ms. Wang**") and Mr. Zhao Xiaobao ("**Mr. Zhao**"), both being the controlling shareholders of the Company, provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents. Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital Co., Ltd and Point Stone Capital Co., Ltd, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms. Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel and Point Stone, representing the entire issued shares of Arcenciel and Point Stone, respectively, in favour of the Lender.

Gearing ratio

As at 31 December 2018, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.56 (2017: approximately 0.50).

Total debt to total asset ratio

As at 31 December 2018, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.36 (2017: approximately 0.33).

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank borrowings. The Group does not have an interest rate hedging policy. However, the directors of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain of the bank and other borrowings of the Group as at 31 December 2018 and 2017 bore interest at floating rates.

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

The Group trades only with recognised and credit-worthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the directors of the Company review the recoverable amount of each individual trade and bills receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

Currency risk

The Group is only exposed to currency risk through cash and cash equivalent balances that are denominated in HKD and USD, the currency other than the functional currency of the entity to which they relate. The Group minimized its financial assets or liabilities denominated in currencies other than its functional currency to mitigate its exposure to currency risk. The Group has not adopted any foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting appropriate foreign currency hedging policy in the future and will make disclosures as and when necessary.

Capital Commitments

As at 31 December 2018, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB9.5 million (2017: approximately RMB1.4 million).

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.

Employees and remuneration policies

As at 31 December 2018, the Group had approximately 471 employees (2017: approximately 375 employees). For the Year, the Group incurred staff costs of approximately RMB40.9 million (2017: approximately RMB28.3 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.

OUTLOOK

2019 is a year of opportunities and challenges for communication cable manufacturers. Competition amongst peers trended to be intensified because of the capacity expansion while a growth of market demand in communication cables is expected to remain strong as substantial investments are expected to place in the 5G communication infrastructure.

Looking forwards, the 5G network, big data and artificial intelligence will create a digital economy and smart city. Optical fiber cables, copper communication cables and structured cabling system products are the information transmission channels, which are the most fundamental part of the infrastructure development of a smart city. The tide of 5G network and smart city construction expands a new landscape to the communication cable manufacturing industry.

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 share 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.

The Group noted that the downstream markets of structured cabling system products in China are continuously expanding. It is expected that there will be a sustainable growth in the demand for video security (視頻安防), smart home (智能家居), communication device (通信設備) and intelligent building (智能化建築) in the coming years. Leveraging on the Group's industry experience and well-established customer base, the Group plans to explore the opportunity to diversify its products to increase penetration in these markets through self-development, merger and acquisition of and/or strategic cooperation with suitable market players, such as product manufacturers, service providers and distributors. As of the date of this report, the Board did not identify any suitable investment projects.

USE OF PROCEEDS FROM THE SHARE OFFERING

On 9 November 2017, 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 2018, full amount of the net proceeds has been used by the Group. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised amount as at 31 December 2018**
	%	*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	16.9
For the enhancement of the structured cabling system products production equipment	12.5%	15.6	15.6
For financing the research and development of diversified new products and the production processes	8.9%	11.0	11.0
For repayment of part of the bank loans	10.6%	13.2	13.2
For working capital and other	8.4%	10.5	10.5
	100.0%	124.5	124.5

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the Year (2017: 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 9 November 2017 ("**Listing Date**") to 31 December 2018 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 1 January 2018 and up to the date of this announcement, the Audit Committee had held three meetings, 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 nonexecutive 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 1 January 2018 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 1 January 2018 and up to the date of this announcement, the Nomination 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.

COMPETING BUSINESS

Since the Listing Date to the date of this announcement, none of the Directors or the controlling shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules and pursuant to the Deed of Non-completion disclosed under the section headed "Relationship with Controlling Shareholders" in the prospectus of the Company dated 27 October 2017.

EVENTS AFTER THE REPORTING PERIOD

As from 31 December 2018 to the date of this announcement, the Board is not aware of any significant events that have occurred which require disclosure herein.

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 2019

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.