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 2019

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, the Group's operating results were summarised as follows:

- Total revenue slightly decreased by approximately 2.1% to approximately RMB768.3 million (2018: approximately RMB785.0 million).
- Gross profit decreased by approximately 6.2% to approximately RMB184.4 million (2018: approximately RMB196.5 million).
- Gross profit margin slightly decreased by approximately 1.0% to approximately 24.0% (2018: approximately 25.0%).
- Profit for the year attributable to owners of the Company decreased by approximately 21.4% to approximately RMB66.8 million (2018: approximately RMB85.0 million).
- Revenue from sale of optical fiber cables decreased by approximately 23.5% to approximately RMB241.9 million (2018: approximately RMB316.2 million); revenue from sale of structured cabling system products significantly increased by approximately 21.8% to approximately RMB217.1 million (2018: approximately RMB178.2 million); and revenue from sale of communication copper cables increased by approximately 6.4% to approximately RMB309.3 million (2018: approximately RMB290.6 million).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: 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 2019 (the "**Year**"), together with the comparative figures for the year ended 31 December 2018 (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 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*4*	**768,322**	784,997
Cost of sales		**(583,907)**	(588,544)
Gross profit		**184,415**	196,453
Other income		**715**	371
Selling and distribution expenses		**(42,773)**	(34,484)
Administrative expenses		**(49,110)**	(50,916)
Expected credit losses on financial assets		**(1,640)**	(614)
Finance costs	*5*	**(7,909)**	(6,132)
Profit before income tax expense	*6*	**83,698**	104,678
Income tax expense	*7*	**(16,946)**	(19,685)
Profit for the year		**66,752**	84,993
Profit for the year attributable to the owners of the Company		**66,752**	84,993
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(2,945)**	(1,941)
Other comprehensive income for the year, net of tax		**(2,945)**	(1,941)
Profit and total comprehensive income for the year		**63,807**	83,052
Earnings per share	*8*		
Basic and diluted		**RMB0.061**	RMB0.077

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*9*	**244,886**	119,513
Prepaid land lease payments	*10*	**–**	11,749
Prepayment for property, plant and equipment and intangible assets		**69,339**	60,257
Total non-current assets		**314,225**	191,519
Current assets			
Prepaid land lease payment	*10*	**–**	289
Inventories		**65,588**	70,607
Trade and bills receivables	*11*	**264,626**	229,710
Deposits, prepayment and other receivables		**61,167**	34,148
Restricted cash	*12*	**22,476**	16,166
Cash and cash equivalents		**74,440**	89,201
Total current assets		**488,297**	440,121
Total assets		**802,522**	631,640
Current liabilities			
Trade and bills payables	*13*	**71,964**	68,715
Contract liabilities		**4,525**	3,761
Lease liabilities	*15*	**584**	–
Accruals, deposits received and other payables		**17,864**	15,164
Amount due to a director		**–**	1,746
Current tax liabilities		**3,168**	3,843
Bank and other borrowings	*14*	**170,107**	43,469
Total current liabilities		**268,212**	136,698
Net current assets		**220,085**	303,423
Total assets less current liabilities		**534,310**	494,942

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Bank and other borrowings	*14*	**53,500**	80,843
Lease liabilities	*15*	**144**	–
Deferred tax liability		**11,883**	9,133
Total non-current liabilities		**65,527**	89,976
Total liabilities		**333,739**	226,674
NET ASSETS		**468,783**	404,966
EQUITY			
Share capital		**9,361**	9,361
Reserves		**459,422**	395,605
TOTAL EQUITY		**468,783**	404,966

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 2019 comprise the Company and its subsidiaries (together referred to as "**the Group**"). The consolidated financial statements were authorised for issue by the Directors on 31 March 2020.

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

2.1 Adoption of new/revised HKFRSs – effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features with Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

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

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

A. *HKFRS 16 – Leases*

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("**HKAS 17**"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows increase:

	RMB'000
Statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	12,999
Lease liabilities	951
Retained earnings	10

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	1,903
Less: short term leases for which lease terms end within 31 December 2019	(896)
Less: future interest expenses	(56)
Total lease liabilities as of 1 January 2019	951
The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019:	5.66%

(ii) *The new definition of a lease*

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased mobile phones, laptop computers and photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

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

The following new/revised HKFRSs, potentially relevant to the consolidated 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.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[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 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Except as described below, the directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's financial statements and/or the disclosures to the Group's consolidated financial statements.

A. Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

B. Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars ("**HKD**"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("**RMB**"), unless otherwise stated.

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:

	2019	2018
	RMB'000	*RMB'000*
Optical fiber cables	**241,870**	316,160
Communication copper cables	**309,308**	290,596
Structured cabling system products	**217,144**	178,241
	768,322	784,997
Geographical markets:		
Mainland China	**768,322**	784,997
Timing of revenue recognition		
Goods transferred at a point in time	**768,322**	784,997

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

	2019	2018
	RMB'000	*RMB'000*
Trade and bills receivables	**264,626**	229,710
Contract liabilities	**4,525**	3,761

5. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest charge on bank and other borrowings	**15,788**	6,132
Interest on lease liabilities	**62**	–
Less: Amount capitalised	**(7,941)**	–
	7,909	6,132

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration	**1,080**	915
Amortisation of prepaid land lease payments *(note i)*	**–**	289
Cost of inventories recognized as cost of sales	**583,907**	588,544
Transportation expense	**16,308**	17,516
Research and development expenditure	**23,424**	24,837
Depreciation of property, plant and equipment	**16,578**	13,742
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	1,787
Expected credit losses on financial assets	**1,640**	614
Interest on lease liabilities	**62**	–
Short-term leases expenses	**1,597**	–
Staff costs (including directors' emoluments):		
– Salaries and wages	**41,792**	35,489
– Defined contribution scheme *(Note ii)*	**6,110**	5,425
	47,902	40,914

Notes:

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.

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:

	2019	2018
	RMB'000	*RMB'000*
Current tax – Hong Kong Profits Tax		
Tax for the current year	**–**	–
Current tax – PRC EIT		
Tax for the current year	**14,196**	16,654
Deferred tax		
Charge to profit or loss for the year	**2,750**	3,031
	16,946	19,685

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 2019 (2018: RMB 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 2019 and 2018, 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:

	2019	2018
	RMB'000	*RMB'000*
Profit before income tax expense	**83,698**	104,678
Tax calculated at the applicable tax rate of 25% (2018: 25%)	**20,925**	26,170
Effect of different tax rates	**(10,391)**	(11,227)
Tax effect of expenses not deductible for tax purposes	**200**	580
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,757)**	(1,829)
Deferred tax on undistributed earnings of PRC subsidiaries	**3,111**	3,031
Effect of tax losses not recognised	**4,858**	2,934
Others	**–**	26
Income tax expense	**16,946**	19,685

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 RMB66,752,000 (2018: approximately RMB84,993,000) and the weighted average of 1,100,000,000 shares (2018: 1,100,000,000 shares) in issue during the year, calculated as follows:

	2019	2018
	RMB	*RMB*
Earnings per share		
Basic earnings per share	**0.061**	0.077
Number of share		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,100,000,000**	1,100,000,000

There were no potential dilutive ordinary shares during the years ended 31 December 2019 and 2018 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *RMB'000*	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Total *RMB'000*
COST						
As at 31 December 2017 and 1 January 2018	–	64,261	90,512	2,168	3,423	160,364
Additions	572	3,098	16,105	–	6,540	26,315
Disposals	–	–	–	–	–	–
As at 31 December 2018 as originally presented	572	67,359	106,617	2,168	9,963	186,679
Initial application of HKFRS 16	–	15,395	–	–	–	15,395
Restated balance as at 1 January 2019	**572**	**82,754**	**106,617**	**2,168**	**9,963**	**202,074**
Additions	**125,788**	**1,451**	**278**	**166**	**1,273**	**128,956**
Disposals	**–**	**–**	**–**	**(64)**	**–**	**(64)**
As at 31 December 2019	**126,360**	**84,205**	**106,895**	**2,270**	**11,236**	**330,966**
ACCUMULATED DEPRECIATION						
As at 31 December 2017 and 1 January 2018	–	11,794	37,481	1,397	2,752	53,424
Depreciation	–	3,347	8,800	279	1,316	13,742
As at 31 December 2018 as originally presented	–	15,141	46,281	1,676	4,068	67,166
Initial application of HKFRS 16	–	2,396	–	–	–	2,396
Restated balance as at 1 January 2019	**–**	**17,537**	**46,281**	**1,676**	**4,068**	**69,562**
Depreciation	**–**	**4,671**	**9,191**	**318**	**2,398**	**16,578**
Disposal	**–**	**–**	**–**	**(60)**	**–**	**(60)**
As at 31 December 2019	**–**	**22,208**	**55,472**	**1,934**	**6,466**	**86,080**
NET BOOK VALUE						
As at 31 December 2019	**126,360**	**61,997**	**51,423**	**336**	**4,770**	**244,886**
As at 31 December 2018	572	52,218	60,336	492	5,895	119,513

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values.

Buildings and structures which are held for own use is situated in the PRC. At 31 December 2019, land and buildings with carrying amounts of RMB61,331,000 (2018: Nil), were pledged as collateral for Group's bank and other borrowings (Note 14(ii)).

	Land and buildings
	RMB'000
Right-of-Use assets	
At 1 January 2019	12,999
Addition	314
Depreciation	(948)
At 31 December 2019	12,365

10. PREPAID LAND LEASE PAYMENTS

	Total
	RMB'000
Cost	
As at 31 December 2018 as originally presented	14,435
Initial application of HKFRS 16 *(note 2.1(A))*	(14,435)
As at 1 January 2019 and 31 December 2019	–
Amortisation	
As at 1 January 2018	2,108
Amortisation	289
As at 31 December as originally presented	2,397
Initial application of HKFRS 16 *(note 2.1(A))*	(2,397)
As at 1 January 2019 and 31 December 2019	–
Net book value	
As at 31 December 2019	–
As at 31 December 2018	12,038

	2019	2018
	RMB'000	*RMB'000*
Analysed for reporting purpose as:		
Non-current	**–**	11,749
Current	**–**	289
	–	12,038

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**266,784**	231,799
Bills receivables *(Note)*	**1,892**	321
	268,676	232,120
Less: Loss allowance	**(4,050)**	(2,410)
	264,626	229,710

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:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**90,273**	63,231
More than 1 month but within 2 months	**75,971**	61,384
More than 2 months but within 3 months	**52,490**	39,281
More than 3 months but within 6 months	**39,220**	60,059
More than 6 months but within 1 year	**6,369**	5,344
More than 1 year	**303**	411
	264,626	229,710

The Group recognised expected credit losses based on the accounting policy.

The credit term granted by the Group to its trade customers is normally 180 days to 360 days.

12. RESTRICTED CASH

Bank deposits have been pledged as security for bank borrowings (Note 14) and bills payables (Note 13). The restricted cash will be released upon the settlement of relevant bank borrowings and bills payables.

13. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**52,928**	36,399
Bills payables	**19,036**	32,316
	71,964	68,715

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:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**43,497**	27,534
More than 1 month but within 2 months	**9,311**	9,427
More than 2 months but within 3 months	**5,700**	760
More than 3 months but within 6 months	**6,648**	30,450
More than 6 months but within 1 year	**6,262**	382
More than 1 year	**546**	162
	71,964	68,715

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.

	2019	2018
	RMB'000	*RMB'000*
Neither past due	**70,371**	68,524
Overdue for less than 1 year	**1,593**	191
	71,964	68,715

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

14. BANK AND OTHER BORROWINGS

	2019	2018
	RMB'000	*RMB'000*
Bank borrowings:		
– Secured *(ii), (iii), (iv) & (v)*	**120,000**	9,982
– Unsecured *(iii), (iv) & (v)*	**10,000**	–
	130,000	9,982
Other borrowing:		
– Secured *(iii) & (iv)*	**93,607**	80,843
– Unsecured *(iv)*	**–**	33,487
	223,607	124,312
On demand or within one year	**170,107**	43,469
More than one year, but not exceeding two years	**3,080**	80,843
More than two years, but not exceeding three years	**7,500**	–
More than three years, but not exceeding four years	**6,160**	–
More than four years, but not exceeding five years	**7,700**	–
More than five years, but not exceeding six years	**29,060**	–
	223,607	124,312

Notes:

(i) The bank borrowings with effective interest rate is 4.98% (2018: 5.66%) per annum.

(ii) The bank and other borrowings are secured by the assets of the Group, the carrying amounts of the assets as follows:

	2019	2018
	RMB'000	*RMB'000*
Land and buildings *(Note 9)*	**61,331**	–
Bank deposits *(Note 12)*	**10,000**	–
	71,331	–

(iii) As at 31 December 2019 and 2018, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank and other borrowings.

(iv) All the bank borrowings were denominated in RMB and other borrowing was denominated in HK dollars and RMB.

(v) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2019 and 2018 set out below:

	2019	2018
	RMB'000	*RMB'000*
Amounts granted	**130,000**	10,000
Amounts utilised	**130,000**	10,000

15. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(A)(iv).

Nature of leasing activities (in the capacity as lessee)

The group leases a number of properties for the purpose of offices in the PRC and Hong Kong.

Right-of-use assets

	31 December 2019	1 January 2019
	RMB'000	*RMB'000*
Ownership interests in prepaid land, carried at fair value with remaining lease term of:		
Between 10 and 50 years	**11,699**	12,038
Other properties leased for own use, carried at depreciated cost	**666**	961

The carrying amount of lease liabilities and the movements during the year are as follows:

	Land use rights *RMB'000*
At 31 December 2018 as originally presented	–
Initial application of HKFRS 16	951
Restated balance as at 1 January 2019	951
Addition	314
Interest expense	62
Lease payments	(599)
At 31 December 2019	728

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments *RMB'000*	**Total minimum lease payments** *RMB'000*	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*
Within 1 year	**584**	**608**	901	945
After 1 year but within 2 years	**130**	**133**	50	62
After 2 year but within 5 years	**14**	**19**	–	–
After 5 years	**–**	**–**	–	–
	144	**152**	50	62
	728	**760**	951	1,007
Less: total future interest expenses		**(32)**		(56)
Present value of lease liabilities		**728**		951

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See note 2(A)(iv) for further details about transition.

The present value of future lease payments are analysed as:

	2019	2018
	RMB'000	*RMB'000*
Current liabilities	**584**	901
Non-current liabilities	**144**	50
	728	951

	2019
	RMB'000
Short term lease expense	**1,597**
Low value lease expense	**–**

16. EVENTS AFTER THE END OF REPORTING DATE

Following the outbreak of the novel coronavirus (COVID-19) epidemic in China in early 2020, the business operation and the overall economy of the PRC have been adversely affected. The Board expects that the COVID-19 outbreak may bring negative effect on the Group's business. However, due to the dynamic nature of the COVID-19 epidemic, the extent of its impact on the Group's business and financial position in 2020 cannot be estimated. The Board is closely monitoring the development of, and the disruptions to the PRC economy caused by, the COVID-19 epidemic and will timely assess and react actively to its impact on the operation and financial performance of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Year. It recorded a total revenue of approximately RMB768.3 million which represented a slight decline of approximately 2.1% as compared with the one for the Last Year. The Group has realized a gross profit of approximately RMB184.4 million for the Year, which represented a decline of approximately 6.2% as compared to the one for the Last Year. Profit for the Year attributable to owners of the Company was approximately RMB66.8 million, decreased by approximately 21.4% as compared with the one for the Last Year.

The decrease in revenue was mainly attributable to the decrease in sale of optical fiber cables by approximately 23.5% to approximately RMB241.9 million (the Last Year: approximately RMB316.2 million). The underperformance in the optical fiber cable business was alleviated by the good performance achieved in the structured cabling system products business. The sale of structured cabling system products increased by approximately 21.8% to approximately RMB217.1 million (the Last Year: approximately RMB178.2 million). Revenue generated from sale of communication copper cables increased by approximately 6.4% from approximately RMB290.6 million for the Last Year to approximately RMB309.3 million for the Year.

In general, the growth rate of the communication cable industry in the Year has slowed down as compared with previous years. The main reason was that the 4G construction in China has nearly come to the end while the 5G construction is still in an experimental stage. The commercialization of 5G is yet to come. The communication cable industry in China is in a lean season. Demand shrank because of few new communication network expansions, which led to an oversupply of goods and exerting a downward pressure on prices. As a medium size player in the industry, the Group's business has been adversely affected.

The Group had a steady performance in the sale volume of the optical fiber cable for the Year as compared with the same of the Last Year. However, the drop in the market price of the optical fiber cables in the industry results in a diminution of the gross profit margin of the Group's optical fiber cables business. Overall revenue derived from the optical fiber cables business decreased by 23.5% as compared with the same of the Last year. The Group has expanded its sale team to diversify its customer base and penetrated into the non-telecommunication operator market in the structured cabling system products. Such strategy has been proved to be successful with a growth of 21.8% in the revenue generated from the sale of structured cabling system products for the Year as compared with the same of the Last Year. The market share and brand awareness of the Group's structured cabling system products in non-operator markets have steadily increased. 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 2019. The Group has been honored with this award every year since 2015. For communication copper cable business, the performance is steady in terms of the market price and sale volume.

The Group is going to integrate to the industrial chain upstream sector to commence its production of optical fibers so as to obtain control over optical fiber supply, improve supply chain efficiency and strive for better profit margin. Through various financing activities (for example, the Group obtained a loan facility with a total principal amount of up to HK$200.0 million from AVIC Capital International Holdings Co.), the Group has secured sufficient funding to finance its construction of the optical fiber production plant. The construction of the plant is in progress and expected to be completed in the third quarter of 2020. The borrowings incurred for the construction of the optical fiber production plant has led to an increase in the Group's financial costs in short term while a greater return including strengthening the supply force, reducing production costs, bringing profit growth points, and taking advantage of upstream fiber optic products to enhance the Group's overall management and sustainable development. It paves the way for the Group's growth in the 5G era.

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 represents three reportable segments, respectively. Total revenue of the Group slightly decreased by approximately 2.1% from approximately RMB785.0 million for the Last Year to approximately RMB768.3 million for the Year. Among which, revenue derived from sale of optical fiber cables decreased by approximately 23.5% from approximately RMB316.2 million for the Last Year to approximately RMB241.9 million for the Year; revenue derived from sale of structured cabling system products significantly increased by approximately 21.8% from approximately RMB178.2 million for the Last Year to approximately RMB217.1 million for the Year; and revenue derived from sale of communication copper cables increased by approximately 6.4% from approximately RMB290.6 million for the Last Year to approximately RMB309.3 million for the Year.

Gross profit and margin

Gross profit decreased by approximately 6.2% to approximately RMB184.4 million for the Year from approximately RMB196.5 million for the Last Year. The Group's gross profit margin was slightly declined to approximately 24.0% for the Year from approximately 25.0% for the Last Year. The decrease in gross profit margin was primarily due to a drop in the market price of the optical fiber cables in the industry resulting in a diminution of the gross profit margin of the Group's optical fiber cables business.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 24.1% from approximately RMB34.5 million for the Last Year to approximately RMB42.8 million for the Year, primarily due to an increase of approximately RMB7.6 million in salaries and welfare expenses for the Group's selling and marketing staff, reflecting the Group's strengthened marketing efforts. Selling expenses as a percentage of our revenue slightly increased, which was approximately 5.6% for the Year as compared to approximately 4.4% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB49.1 million for the Year, which remained stable as compared to the one of approximately RMB50.9 million for the Last Year.

Finance costs

Finance costs increased by approximately 29.5% from approximately RMB6.1 million for the Last Year to approximately RMB7.9 million for the Year. Interest arising from bank and other borrowings for the year amounted to RMB15.8 million and RMB7.9 million out of which has been capitalized for the construction of optical fiber production.

Income tax expense

Income tax expense decreased by approximately 14.2% from approximately RMB19.7 million for the Last Year to approximately RMB16.9 million for the Year, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 18.8% for the Last Year and approximately 20.2% for the Year due to more revenue contributed by a subsidiary which is entitled to a corporate income tax rate of 25%.

Profit for the Year

Profit for the Year decreased by approximately 21.4% from approximately RMB85.0 million for the Last Year to approximately RMB66.8 million for the Year.

Cash position

As at 31 December 2019, the Group had an aggregate of restricted cash, cash and cash equivalent of approximately RMB96.9 million (2018: approximately RMB105.4 million), representing a decrease of approximately 8.1% as compared to that as at 31 December 2018. As at 31 December 2019, the Group had restricted cash of approximately RMB22.5 million (2018: RMB16.2 million) that was pledged to banks for various banking facilities.

Borrowings and charges on the Group's assets

As at 31 December 2019, the Group had bank borrowings of approximately RMB130.0 million (2018: approximately RMB10.0 million) and out of which, RMB120.0 million was secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates and RMB10.0 million was unsecured. Bank borrowings of approximately RMB76.5 million will be repayable within one year.

On 28 December 2018, the Company as a borrower entered into a loan agreement ("**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") in relation to a loan with a total principal amount of up to HK$200.0 million (the "**Loan**"). The first batch of the Loan of HK$100.0 million 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 ("**Arcenciel**") and Point Stone Capital Co., Ltd ("**Point Stone"**) 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.

Save as disclosed in this announcement, the Group did not have any charges of assets as at 31 December 2019 (2018: Nil).

Significant investments

The Group did not hold any significant investments during the Year.

Material acquisitions or disposals

During the Year, the Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures.

Gearing ratio

As at 31 December 2019, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.71 (2018: approximately 0.56).

Total debt to total asset ratio

As at 31 December 2019, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.42 (2018: approximately 0.36).

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 will monitor interest rate exposure from time to time 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 2019 and 2018 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 14 to the consolidated financial statement.

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk was 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.

In order to minimise the credit risk, the Directors 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 will 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 consider that the credit risk of the Group is significantly reduced.

The Directors consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which have 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 currencies 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 to adopt appropriate foreign currency hedging policy in the future and will make disclosures as and when necessary.

Capital Commitments

As at 31 December 2019, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment and intangible assets amounting to approximately RMB86.2 million (2018: approximately RMB9.5 million). The capital commitments incurred at the end of the Year were mainly contracted for the construction of the optical fiber production plant which is expected to be completed in the third quarter of 2020.

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 2019, the Group had approximately 514 employees (2018: approximately 471 employees). For the Year, the Group incurred staff costs of approximately RMB47.9 million (2018: approximately RMB40.9 million). 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

On 6 June, 2019, the Ministry of Industry and Information Technology of China issued a 5G commercial license to China Mobile, China Unicom, China Telecom, China Radio and Television. The four major telecommunication operators will jointly invest billions of dollars in RMB in 5G network construction. Some studies have shown that China's 5G Fronthaul Network will stimulate a demand of approximately 245 million fiber kilometers of optical fiber cables. The Standing Committee of the Political Bureau of the CPC Central Committee met on 4 March 2020 and announced to accelerate the progress of existing major projects and infrastructure constructions already clearly planned by the state, as well as new infrastructure projects such as 5G networks and data centers. As the shadow of the new coronary pneumonia epidemic subsides, the pace of infrastructure construction in the country will gradually resume. Major national development projects such as 5G network and data centers will be accelerated.

In early 2020, China's steady economy development plan was strongly affected by the coronavirus outbreak. Relevant reports indicate that China will continue to lead the development of 5G industries under the epidemic. Under this coronavirus outbreak, 5G with "large bandwidth, low latency, wide connection" characteristics played an important role in the epidemic prevention and control, which enhance the PRC government' management efficiency and capacity. 5G remote diagnosis and treatment technology, 5G plus thermal imaging technology and 5G ultra-high definition live broadcast technology have proved the importance of 5G technology and the need for 5G network construction. 5G "new infrastructure" is one of the important driving forces of the "post-epidemic era" economic recovery. Optical fiber cables as an important part of 5G network construction, will ushered in the need for blowout.

The Group will continue to maintain its good business relationship with the major telecommunication operators and keep participating actively in the major telecommunication operators' large-scale bidding projects. Strengthened production capacity and overall competitiveness will help us secure more orders. The Group will remain committed to business diversification and continue to maintain a high-speed growth trend in the market of the non-telecommunication operators. In the 5G era, there will be numerous new "small operators" for vertical industries and new industries. The Group has set up 27 sales representatives in large and medium-sized cities across the country to achieve full coverage of all major provinces and cities in the country, and further expand the businesses in the non-telecommunication operator clients nationally.

Optical fiber cables, communication copper cables and structured cabling system products are set as the three key business segments of the Group. In the meantime, the Group is going to expand its business into parallel industries, such as data centers, building intercom, smart home. Among which, the development of structured cabling system products is one of the Group's most important strategies in the coming years. We have achieved promising results in the structured cabling system products business. Take it next, the Group aims to become No.1 brand in the non-telecommunication operators' market. It will further expand its market share and brand in the 5G era and strive for excellence in product quality and service to provide customers with high quality and diversified supply of communications network support.

In addition to actively structuring the market and diversifying its product lines, the Group will make unremitting efforts in research and development. To meet the requirements of ultra-high bandwidth, ultra-low latency and ultra-high reliability in the 5G era, the Group has set up a first-class research and development team and acquired technology from industry leaders. The Group has mastered the domestic advanced technology and obtained a number of invention patents. The Group will continuously focus on the research and development work and treat it as the primary impetus to our business growth.

The forthcoming period is full of challenges. The Group believes in the need to strengthen the foundation. When the demand arising from 5G releases, the communication cable industry is bound to usher in a new round of growth. The Group looks forward to the era of the Internet of Everything. By then, the Group will seize the opportunities of 5G era for a business growth.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the Year (2018: 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 Year 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 and up to the end of the Year.

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. 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. However, 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 its 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 Year.

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 2019 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 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 1 January 2019 and up to the date of this announcement, the Remuneration Committee held three 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 2019 and up to the date of this announcement, the Nomination Committee held three 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

The Company received confirmations from the controlling shareholders of the Company in March 2020 on their compliance of the non-competition undertaking under the deed of non-completion as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus ("**Deed of non-competition**") for the Year. The independent non-executive Directors have reviewed the confirmations and evaluated the effectiveness of the implementation of the Deed of non-competition and concluded that none of 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-competition during the Year.

EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of the novel coronavirus (COVID-19) epidemic in China in early 2020, the business operation and the overall economy of the PRC have been adversely affected. The Board expects that the COVID-19 outbreak may bring negative effect on the Group's business. However, due to the dynamic nature of the COVID-19 epidemic, it is difficult for the Board to estimate the extent of its impact on the Group's business and financial position in 2020. The Board is closely monitoring the development of, and the disruptions to the PRC economy caused by, the COVID-19 epidemic and will timely assess and react actively to its impact on the operation and financial performance of the Group. The Group will issue announcements to make relevant disclosures as and when appropriate and necessary.

Save as disclosed above, there was no other significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the Year.

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 and therefore, there were no outstanding options as at 31 December 2019 (2018: Nil).

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 of the Company 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, 31 March 2020

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