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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

For the Period, the Group's operating results were summarised as follows:

- Total revenue decreased by approximately 31.4% to approximately RMB228.1 million (the Last Period: approximately RMB332.6 million).
- Gross profit decreased by approximately 31.8% to approximately RMB51.5 million (the Last Period: approximately RMB75.5 million).
- Gross profit margin slightly decreased by approximately 0.1% to approximately 22.6% (the Last Period: approximately 22.7%).
- Profit for the Period attributable to owners of the Company decreased by approximately 52.3% to approximately RMB12.3 million (the Last Period: approximately RMB25.8 million).
- Revenue generated from sale of optical fiber cables decreased by approximately 40.6% to approximately RMB67.6 million (the Last Period: approximately RMB113.9 million); revenue generated from sale of structured cabling system products decreased by approximately 18.3% to approximately RMB64.3 million (the Last Period: approximately RMB78.7 million); and revenue generated from sale of communication copper cables decreased by approximately 31.2% to approximately RMB96.2 million (the Last Period: approximately RMB139.9 million).
- The Board did not recommend the payment of an interim dividend for the Period (the Last Period: Nil).

The board (the "**Board**") of directors (the "**Directors**") of Putian Communication Group Limited (the "**Company**") is pleased to announce the unaudited consolidated interim result of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2020 (the "**Period**"), together with the comparative figures for the corresponding period in 2019 (the "**Last Period**") as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**228,096**	332,553
Cost of sales		**(176,645)**	(257,022)
Gross profit		**51,451**	75,531
Other income	*6*	**317**	284
Selling and distribution expenses		**(15,668)**	(20,107)
Administrative expenses		**(12,924)**	(19,508)
Expected credit losses on financial assets		**(3,767)**	1,364
Finance costs	*7*	**(5,235)**	(7,142)
Profit before income tax expense	*8*	**14,174**	30,422
Income tax expense	*9*	**(1,875)**	(4,612)
Profit for the period		**12,299**	25,810
Profit for the period attributable to owners of the Company		**12,299**	25,810
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(609)**	(1,400)
Other comprehensive income for the period, net of tax		**(609)**	(1,400)
Profit and total comprehensive income for the period		**11,690**	24,410
Earnings per share	*10*		
Basic and diluted		**RMB0.011**	RMB0.024

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**302,996**	244,886
Prepayment for property, plant and equipment and intangible assets	*12*	**24,992**	69,339
Total non-current assets		**327,988**	314,225
Current assets			
Inventories	*13*	**65,340**	65,588
Trade and bills receivables	*14*	**204,003**	264,626
Deposits, prepayment and other receivables	*15*	**91,122**	61,167
Tax recoverables		**850**	–
Restricted cash	*16*	**8**	22,476
Cash and cash equivalents		**97,529**	74,440
Total current assets		**458,852**	488,297
Total assets		**786,840**	802,522
Current liabilities			
Trade and bills payables	*17*	**64,432**	71,964
Contract liabilities	*18*	**7,531**	4,525
Accruals, deposits received and other payables		**14,845**	17,864
Current tax liabilities		**–**	3,168
Bank and other borrowings	*19*	**140,532**	170,107
Lease liabilities		**646**	584
Total current liabilities		**227,986**	268,212
Net current assets		**230,866**	220,085
Total assets less current liabilities		**558,854**	534,310

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Non-current liabilities			
Bank and other borrowings	*19*	**65,960**	53,500
Deferred tax liabilities		**12,085**	11,883
Lease liabilities		**336**	144
Total non-current liabilities		**78,381**	65,527
Total liabilities		**306,367**	333,739
NET ASSETS		**480,473**	468,783
EQUITY			
Share capital		**9,361**	9,361
Reserves		**471,112**	459,422
TOTAL EQUITY		**480,473**	468,783

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

1. GENERAL INFORMATION

Putian Communication Group Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies laws. The Company was listed on the Stock Exchange of Hong Kong Limited on 9 November 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located in the 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.

This interim condensed consolidated financial statements are presented in Chinese Renminbi ("**RMB**"), unless otherwise stated.

This interim condensed consolidated financial statements have been approved and authorized for issue by the Board of Director of the Company on 31 August 2020.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the Period have neither been audited nor reviewed by the Company's auditors, but have been reviewed by the Company's audit committee, which have been prepared in accordance with HKAS 34, Interim Financial Reporting issued by Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019 (the "**2019 Financial Statements**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3. ADOPTION OF NEW OR REVISED HKFRSs

The Group has applied for the first time the following new and revised standards and interpretation ("**new and revised HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are effective for the Group's financial year beginning on or after 1 January 2020.

- Amendments to HKFRS 3: Definition of a Business
- Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8: Definition of Material
- Amendments to HKFRS 16: COVID-19-Related Rent Concessions
- Conceptual Framework for Financial Reporting (Revised)

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

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.

Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKAS 1 and HKAS 8: Definition of Material

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

Amendments to HKFRS 16: COVID-19-Related Rent Concessions

Effective 1 June 2020, HKFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in HKFRS 16 in accounting for the concession.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. The practical expedient has been applied retrospectively, meaning it has been applied to all rent concessions that satisfy the criteria, which in the case of the Group, occurred from January 2020 to February 2020.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

Conceptual Framework for Financial Reporting (Revised)

The revised Framework is not a Standard nor an Accounting Guideline. It does not override any Standard, any requirement in a Standard or Accounting Guideline. The revised Framework includes: new chapters on measurement and reporting financial performance; new guidance on derecognition of assets and liabilities; updated definitions of asset and liability; and clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

4. ESTIMATES

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.

5. SEGMENT INFORMATION

The following summary describes the operations in each of the Group's reportable segments:

(i) Business Segments

	Six months ended 30 June 2020 (Unaudited)			
	Optical fiber cables	**Communication copper cables**	**Structured cabling system products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment revenue	**67,557**	**96,220**	**64,319**	**228,096**
Reportable segment profit	**14,452**	**1,455**	**17,181**	**33,088**

	Six months ended 30 June 2019 (Unaudited)			
	Optical fiber cables	Communication copper cables	Structured cabling system products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue	113,928	139,946	78,679	332,553
Reportable segment profit	9,857	14,943	21,219	46,019

(ii) Reconciliation of profit or loss:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Segment results	**33,088**	46,019
Other income	**317**	284
Unallocated expenses	**(13,996)**	(8,739)
Finance costs	**(5,235)**	(7,142)
Income tax expense	**(1,875)**	(4,612)
Profit after taxation	**12,299**	25,810

(iii) Geographic information

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

6. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income and others	**416**	182
Exchange losses, net	**(507)**	–
Government grants	**317**	85
Gains on sale of scrap materials	**91**	17
	317	284

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest charge on bank and other borrowings	**9,448**	7,501
Interest charge on lease liabilities	**37**	26
Less: Amount capitalised	**(4,250)**	(385)
	5,235	7,142

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	**176,645**	257,022
Research and development expenditure	**2,695**	8,415
Depreciation of property, plant and equipment	**8,485**	7,452
Depreciation of right-of-use asset	**1,089**	496
Short-term lease	**865**	843
Expected credit losses/(write-back) on financial assets	**3,767**	(1,364)
Staff costs (including directors' emoluments)		
– Salaries and wages	**17,104**	17,632
– Defined contribution scheme	**2,063**	3,715
	19,167	21,347

9. INCOME TAX EXPENSE

The amount of taxation in the condensed consolidated financial statement of comprehensive income represents:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	**–**	–
Current tax – PRC EIT	**1,484**	4,402
Deferred income tax charge to profit or loss for the period	**391**	210
Income tax expenses	**1,875**	4,612

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the Period (the Last Period: 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 period 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 Period and the Last Period, as it was awarded high-technology status by tax authority.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB12,299,000 (the Last Period: approximately RMB25,810,000) and the weighted average of 1,100,000,000 shares (the Last Period: 1,100,000,000 shares) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	**0.011**	0.024
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 Period and the Last Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Audited
	RMB'000
Net book value as at 1 January 2019	132,512
Additions	128,956
Depreciation	(16,578)
Disposal	(4)
Net book value as at 31 December 2019	244,886

	Unaudited
	RMB'000
Net book value as at 1 January 2020	**244,886**
Additions	**67,741**
Depreciation	**(9,574)**
Disposal	**(57)**
Net book value as at 30 June 2020	**302,996**

The 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.

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayment for property, plant and equipment	**21,596**	65,943
Prepayment for intangible assets	**3,396**	3,396
	24,992	69,339

13. INVENTORIES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**29,422**	19,402
Finished goods	**35,918**	46,186
	65,340	65,588

14. TRADE AND BILLS RECEIVABLES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Trade receivables	**205,481**	266,784
Bills receivables *(Note)*	**6,339**	1,892
	211,820	268,676
Less: Loss allowances	**(7,817)**	(4,050)
	204,003	264,626

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:

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Within 1 month	**53,082**	90,273
More than 1 month but within 2 months	**47,682**	75,971
More than 2 months but within 3 months	**32,701**	52,490
More than 3 months but within 6 months	**61,692**	39,220
More than 6 months but within 1 year	**5,720**	6,369
More than 1 year	**3,126**	303
	204,003	264,626

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

15. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

As at 30 June 2020, deposits, prepayment and other receivables mainly included prepayment of RMB53.5 million for the acquisition of raw materials and equipment (31 December 2019: RMB23.2 million).

16. RESTRICTED CASH

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

17. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	**28,756**	52,928
Bills payables	**35,676**	19,036
	64,432	71,964

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	**47,705**	43,497
More than 1 month but within 2 months	**9,213**	9,311
More than 2 months but within 3 months	**1,813**	5,700
More than 3 months but within 6 months	**3,583**	6,648
More than 6 months but within 1 year	**978**	6,262
More than 1 year	**1,140**	546
	64,432	71,964

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.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	**64,277**	70,371
Bills payables	**155**	1,593
	64,432	71,964

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

18. CONTRACT LIABILITIES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Contract liabilities arising from:		
Sale of goods	**7,531**	4,525
	7,531	4,525

	RMB'000
Balance as at 1 January 2020	**4,525**
Decrease in contract liabilities as a result of recognising revenue during the period that was included in the contract liabilities at the beginning of the period	**(4,525)**
Increase in contract liabilities as a result of billing in advance of sales of goods	**7,531**
Balance as at 30 June 2020	**7,531**

19. BANK AND OTHER BORROWINGS

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Bank borrowings:		
– Secured (i), (ii), (iii), (iv) & (v)	**109,500**	120,000
– Unsecured (i), (iii), (iv) & (v)	**–**	10,000
	109,500	130,000
Other borrowing:		
– Secured (iii) & (iv)	**96,992**	93,607
– Unsecured (iv)	**–**	–
	206,492	223,607

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
On demand or within one year	**140,532**	170,107
More than one year, but not exceeding two years	**26,120**	3,080
More than two years, but not exceeding three years	**6,930**	7,500
More than three years, but not exceeding four years	**32,910**	6,160
More than four years, but not exceeding five years	**–**	7,700
More than five years, but not exceeding six years	**–**	29,060
	206,492	223,607

Notes:

(i) The bank borrowings with effective interest rate is 5.44% (2019: 4.98%) per annum.

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Land and buildings	**58,314**	61,331
Bank deposits	**–**	10,000
	58,314	71,331

(iii) As at 30 June 2020 and 31 December 2019, guarantees were provided by the controlling shareholders and their associates 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 30 June 2020 and 31 December 2019 set out below:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Amounts granted	**117,000**	130,000
Amounts utilised	**109,500**	130,000

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Period. It recorded a revenue of approximately RMB228.1 million which represented a decline of approximately 31.4% as compared with the one for the Last Period. The Group has realized a gross profit of approximately RMB51.5 million for the Period, which represented a decline of approximately 31.8% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB12.3 million, which represented a decline of approximately 52.3% as compared with the one for the Last Period.

The Group has recorded a decrease in the sale of each business segment. Sale of optical fiber cables decreased by approximately 40.6% to approximately RMB67.6 million (the Last Period: approximately RMB113.9 million). The sale of structured cabling system products decreased by approximately 18.3% to approximately RMB64.3 million (the Last Period: approximately RMB78.7 million). Revenue generated from sale of communication copper cables decreased by approximately 31.2% from approximately RMB139.9 million for the Last Period to approximately RMB96.2 million for the Period.

In the first half of 2020, the outbreak of COVID-19 swept the world and spread all over the world. The communications network industry is faced with the crisis and opportunity brought about by the new coronary pneumonia epidemic at the same time.

In China, the communications network industry has inevitably been affected by the short-term impact in the number of new 5G users and the construction of 5G base stations in the first quarter of 2020 due to the lockdown of certain cities at the beginning of the year. Given that the outbreak in China was detected at an early stage, the government quickly carried out a strong and all-round anti-epidemic deployment, from the second quarter of 2020, the national epidemic situation appeared a positive trend and the communications network industry began to recover. With the implementation of China's proposed new infrastructure policies (including 5G infrastructure, large data centers, artificial intelligence, industrial internet construction, etc.), major telecommunication operators' 5G construction and the government's new infrastructure network construction have been commenced which lead to the increasing demand of communication products to a peak.

On 4 March 2020, the Politburo of China held a Standing Committee Meeting, emphasizing the need to speed up the resumption of production and expand domestic demand from consumption, traditional infrastructure and new infrastructure, including new infrastructure focus on seven areas, namely, 5G, ultra-high voltage, high-speed rail, new energy vehicle charging piles, large data centers, artificial intelligence and industrial internet. The meeting clearly defined the development direction of the communications network industry. The new infrastructure policy closely linked to the communication network industry of optical fiber cable, communication copper cable and structured cabling system products industries, which is expected to stimulate the market demand. Upon the COVID-19 epidemic subsided, the communication cable industry will usher in a window period in its development. The industry's prospects continue to stabilize to good.

In the first half of 2020, due to the outbreak of COVID-19, some communications construction projects slowed or even suspended for a short period of time in the first quarter of 2020 and gradually returned to normal in the second quarter of 2020. After the outbreak, major communication network operators in China started to speed up communication network construction to fulfill a larger number of uncomplete sale orders placed in the last year. In August 2020, Putian Cable Group Co., Ltd* (普天綫纜集團有限公司) ("**Putian Cable**"), a wholly-owned subsidiary of the Company won a bid in China Telecom Corporation Limited's centralized procurement project of multicore and symmetrical pair cables for digital communications for 2020 and the awarded bid amount is approximately RMB109.2 million. This is another accomplishment of the Group after its construction of optical fiber production plant, which indicates the Group's advanced position in the transmission field of the communication industry in China.

OUTLOOK

2020 is a year of industrial development led by the new infrastructure. New generation of information and communication technology including data centers and 5G accelerates the transformation of economic development from the basic driving force to the core engine. The Group is optimistic about 5G demand. In order to meet the requirements of high-frequency bandwidth, low latency and high reliability of 5G network, the Group will (i) focus on the development of optical fiber cable based 5G communications network products and solutions as well as product innovation and development; (ii) introduce first-class research and development team; and (iii) actively respond to industry changes.

The Group plans to make full use of its product competitive edge and market advantage in the communications networks field and further penetrate into the downstream industries, i.e. structured cabling system products, data center infrastructure and new smart city construction, to enhance its comprehensive capacity of the smart application solution and business operation in the communication industry to capture opportunities of 5G-related industries.

In addition, the Group's optical fiber production plant is expected to complete its construction and commence into production in the late 2020 and then bring in an annual production capacity of approximately five million kilometers of fiber. The Group has accumulated experiences in the optical fiber production in the upstream sectors and make use of its production capacity and technology to extend its business into the application field in the downstream industries. The business diversification in the downstream applications fields will provide directions and data sources to the research and development and manufacturing in the upstream business.

2020 is the year of 5G scale deployment. The Group will seize the opportunity to rise to the top, firmly forward, to meet the advent of the Era of the Internet of Everything.

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 are three reportable segments. Revenue of the Group decreased by approximately 31.4% from approximately RMB332.6 million for the Last Period to approximately RMB228.1 million for the Period. Among which, revenue derived from sale of optical fiber cables decreased by approximately 40.6% from approximately RMB113.9 million for the Last Period to approximately RMB67.6 million for the Period; revenue derived from sale of structured cabling system products decreased by approximately 18.3% from approximately RMB78.7 million for the Last Period to approximately RMB64.3 million for the Period; and revenue derived from sale of communication copper cables decreased by approximately 31.2% from approximately RMB139.9 million for the Last Period to approximately RMB96.2 million for the Period.

Gross profit and margin

Gross profit decreased by approximately 31.8% to approximately RMB51.5 million for the Period from approximately RMB75.5 million for the Last Period, while the Group's gross profit margin remained stable at approximately 22.6% for the Period as compared to the one of approximately 22.7% for the Last Period.

Other income

Other income increased by approximately 11.6% from approximately RMB284,000 for the Last Period to approximately RMB317,000 for the Period, primarily attributable to an increase in government grant received.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 21.9% from approximately RMB20.1 million for the Last Period to approximately RMB15.7 million for the Period, primarily due to the outbreak of COVID-19 which interrupted the normal business operation and resulted in lesser sale activities incurred.

Administrative expenses

Administrative expenses decreased by approximately 33.8% from approximately RMB19.5 million for the Last Period to approximately RMB12.9 million for the Period, primarily due to the decrease of approximately RMB5.7 million in research and development expenses from approximately RMB8.4 million for the Last Period to approximately RMB2.7 million for the Period.

Finance costs

Finance costs decreased by approximately 26.8% from approximately RMB7.1 million for the Last Period to approximately RMB5.2 million for the Period primarily due to increase in the loan interest capitalised for the construction of the optical fiber production plant from RMB385,000 for the Last Period to RMB4.3 million for the Period.

Income tax expense

Income tax expense decreased by approximately 58.7% from approximately RMB4.6 million for the Last Period to approximately RMB1.9 million for the Period, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 13.2% for the Period and approximately 15.2% for the Last Period.

Profit for the Period

As a result of the foregoing, profit for the Period decreased by approximately 52.3% from approximately RMB25.8 million for the Last Period to approximately RMB12.3 million for the Period.

Particulars of the Group's segment information are set out in note 5 to the Interim Condensed Consolidated Financial Statement.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2020, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB97.5 million (31 December 2019: approximately RMB96.9 million), representing a slight increase of approximately 0.6% as compared to that as at 31 December 2019.

BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the Group had bank borrowings of approximately RMB109.5 million, which was secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. RMB43.5 million out of the bank borrowings are repayable within one year.

As at 31 December 2019, the Group had bank borrowings of approximately RMB120.0 million which were secured by legal charge over the properties of the Group and the corporate guarantees from the Group. All bank borrowings are 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$200,000,000 (the "**Loan**"). The first batch of 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.

On 31 July 2020, the Company entered into an early repayment agreement (the "**Early repayment Agreement**") with the Lender, pursuant to which the Loan Agreement had been early terminated with effect from 31 July 2020 and the drawn-down loan (together with all outstanding interest as of the repayment date) (the "**Amount**") had been repaid by the Company to the Lender on 31 July 2020. Pursuant to the Early Repayment Agreement, the personal guarantee provided by each of Ms. Wang and Mr. Zhao 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 had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020. Pursuant to the Early Repayment Agreement, the above share charge provided by each of Arcenciel, Point Stone, Ms. Wang and Mr. Zhao had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020.

Gearing ratio

As at 30 June 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.64 (31 December 2019: approximately 0.71).

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 monitor 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. No bank and other borrowings of the Group as at 30 June 2020 and 31 December 2019 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 19 to the Interim Condensed Consolidated Financial Statement.

Credit risk

As at 30 June 2020, 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 has been stated in the Interim Condensed 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.

Capital Commitments

As at 30 June 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB69.8 million (31 December 2019: approximately RMB86.2 million).

Save as those disclosed in this announcement, the Group did not have any material acquisitions and disposals for the Period.

Employees and remuneration policies

As at 30 June 2020, the Group had 349 employees (31 December 2019: 514 employees). For the Period, the Group incurred staff costs of approximately RMB19.2 million (the Last Period: RMB21.3 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.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend to shareholders of the Company for the Period (Last Period: Nil).

CONTINGENT LIABILITIES AND LITIGATION

The Group did not have any contingent liabilities and litigation at the end of the Period.

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 Period, no share option has been granted, or agreed to be granted, under the Share Option Scheme.

For details of the Share Option Scheme, please refer to the section headed "Statutory and General Information – 15. Share option scheme" in the Prospectus.

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 during the Period.

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 during the Period.

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 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 of the Company 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 monopolize the voting of the Board. The Board considers that the balance of power between the Board and the senior management of the Company 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 during the Period.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. 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 unaudited interim condensed consolidated financial statement of the Group for the Period has been reviewed by the Audit Committee.

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 interim results announcement, the Company has maintained sufficient public float throughout the Period as required under the Listing Rules.

AUDITOR

BDO Limited ("**BDO**") is currently the auditor of the Company. A resolution for the re-appointment of BDO as auditor of the Company has been approved at the annual general meeting of the Company held on 26 June 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Period, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website (https://www.potel-group.com) and the website of the Stock Exchange (http://www.hkex.com.hk).

The interim report of the Company for the Period will be available at the respective websites of the Company and the Stock Exchange and will be despatched to the shareholders of the Company in due course.

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

The PRC, 31 August 2020

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