普天通信集團有限公司
PUTIAN COMMUNICATION GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock code: 1720

2020 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS
Ms. Wang Qiuping
(Chairlady and Chief Executive Officer)
Mr. Zhao Xiaobao (alias Zhao Baohua)
Ms. Zhao Moge

NON-EXECUTIVE DIRECTOR
Ms. Jiang Xuefeng (resigned on 31 July 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS
Ms. Cheng Shing Yan
Mr. Liu Guodong
Mr. Xie Haidong

AUDIT COMMITTEE
Ms. Cheng Shing Yan *(Chairlady)*
Mr. Liu Guodong
Mr. Xie Haidong

REMUNERATION COMMITTEE
Mr. Liu Guodong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Xie Haidong

NOMINATION COMMITTEE
Mr. Xie Haidong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Liu Guodong

COMPANY SECRETARY
Ms. Lai Yeung Fun

AUTHORISED REPRESENTATIVES
Ms. Wang Qiuping
Ms. Lai Yeung Fun

REGISTERED OFFICE
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 702, Golden Centre
188 Des Voeux Road Central, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 8899 ChangDong Avenue
Hi-tech Development Zone
Nanchang, Jiangxi Province
The PRC

AUDITOR
BDO Limited

LEGAL ADVISER AS TO HONG KONG LAWS
King & Wood Mallesons

PRINCIPAL BANKERS
Bank of China (Nanchang Xihu Branch)
Bank of Communication (Jiangxi Branch)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tricor Investor Services Limited
Level 54 Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE
www.potel-group.com

STOCK CODE
1720

COMPANY PROFILE

Putian Communication Group Limited (the "**Company**") (Stock code: 1720) (together with its subsidiaries, collectively referred to as the "**Group**") is a well-established and fast-growing communication cable manufacturer and structured cabling system product provider based in Jiangxi Province, the PRC.

The Group has commenced its communication cable manufacturing since 2001. It provides a wide range of optical fiber cables, communication copper cables and structured cabling system products under the brand names of "普天汉飞" and "Hanphy". Its optical fiber cables and communication copper cables are mainly used by major telecommunications network operators in the PRC for network construction and maintenance. Its structured cabling system products primarily include optical and copper jumper wires and connection and distribution components such as distribution frames, wiring closets, as well as data and audio modules and faceplates. Structured cabling system products are components of the wiring system, including optical fiber-based cabling system and copper-based system, within buildings for the information transmission. The Group is one of the most diversified suppliers in the communication cable industry in the PRC. Its superior product quality, constant availability, responsive customer services and competitive prices are well recognised by its customers.

The Group continues to strengthen its research and development capabilities which have enabled it to continuously develop new products and upgrade its existing products. Since 2006, one of the Group's major wholly owned subsidiaries, Putian Cable Group Co., Ltd, has been consecutively recognised as a New High-tech Enterprise by Jiangxi Provincial Department of Science and Technology.

On 9 November 2017 (the "**Listing Date**"), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). As at 31 December 2020, the Company had 1,100,000,000 issued shares.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, the Group's operating results were summarised as follows:

- Total revenue decreased by approximately 29.2% to approximately RMB544.1 million (2019: approximately RMB768.3 million).
- Gross profit decreased by approximately 34.1% to approximately RMB121.6 million (2019: approximately RMB184.4 million).
- Gross profit margin decreased by approximately 1.7% to approximately 22.3% (2019: approximately 24.0%).
- Profit for the year attributable to the owners of the Company decreased by approximately 51.6% to approximately RMB32.3 million (2019: approximately RMB66.8 million).
- Revenue from sale of optical fiber cables decreased by approximately 48.5% to approximately RMB124.6 million (2019: approximately RMB241.9 million); revenue from sale of structured cabling system products decreased by approximately 30.6% to approximately RMB150.6 million (2019: approximately RMB217.1 million); and revenue from sale of communication copper cables decreased by approximately 13.1% to approximately RMB268.9 million (2019: approximately RMB309.3 million).
- The board of directors of the Company (the "**Board**") did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and as appropriate, is set out below.

RESULT

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**544,059**	768,322	784,997	621,281	467,919
Profit before income tax expense	**40,242**	83,698	104,678	73,352	63,144
Income tax expense	**(7,950)**	(16,946)	(19,685)	(15,301)	(11,045)
Profit for the year	**32,292**	66,752	84,993	58,051	52,099
Profit for the year attributable to:					
Owners of the Company	**32,292**	66,752	84,993	58,051	52,102
Non-controlling interests	**–**	–	–	–	(3)
	32,292	66,752	84,993	58,051	52,099

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**837,963**	802,522	631,640	484,086	326,552
Total liabilities	**(337,722)**	(333,739)	(226,674)	(160,637)	(100,637)
	500,241	468,783	404,966	323,449	225,915
Equity attributable to owners of the Company	**500,241**	468,783	404,966	323,449	225,915
Non-controlling interests	**–**	–	–	–	–
	500,241	468,783	404,966	323,449	225,915

CHAIRMAN'S STATEMENT

Wang Qiuping
Chairlady

Dear Shareholders,

On behalf of the Board of directors (the "**Directors**") of the Company, I am pleased to present to our shareholders the annual results of the Group for the year ended 31 December 2020 (the "**Year**").

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Year. It recorded a total revenue of approximately RMB544.1 million which represented a decline of approximately 29.2% as compared with the one for the year ended 31 December 2019 (the "**Last Year**"). The Group has realised a gross profit of approximately RMB121.6 million for the Year, which represented a decline of approximately 34.1% as compared with the one for the Last Year. Profit for the Year attributable to the owners of the Company was approximately RMB32.3 million, which represented a decline of approximately 51.6% 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 48.5% to approximately RMB124.6 million (the Last Year: approximately RMB241.9 million). The sale of structured cabling system products decreased by approximately 30.6% to approximately RMB150.6 million (the Last Year: approximately RMB217.1 million). The sale of communication copper cables decreased by approximately 13.1% to approximately RMB268.9 million (the Last Year: approximately RMB309.3 million).

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 4G construction in China has nearly come to the end while a scalable commercialisation 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.

In addition, the outbreak of COVID-19 during the first half of the Year interrupted the Group’s production, supply chains and sale activities, which adversely affected the Group’s business performance. In the second half of the Year, major communication network operators in China started to speed up communication network construction to fulfill a larger number of uncompleted sale orders placed in 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, being a centralised 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’ advanced position in the transmission field of the communication cable industry in China.

On 4 March 2020, the Politburo of China held a Standing Committee Meeting, emphasising the need to speed up the resumption of production and expand domestic demand from consumption, traditional infrastructure and new infrastructure, including new infrastructure focusing 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 links with the communication network industry, in particular optical fiber cables, communication copper cables and structured cabling system products industries, which is expected to stimulate the market demand. The industry’s prospects continue to stabilise to good.

OUTLOOK

On 5 March 2021, the fourth session of the 13th National People’s Congress was held in Beijing. The meeting once again proposed to “increase investments in the construction of 5G network and gigabit optical network to enrich the application scenarios.” For the communications cable industry, which provides fundamental network support, the construction of 5G network and gigabit optical network will undoubtedly bring a huge amount of optical fiber cables resource consumption, sizable market prospects and a certain market increment.

The Ministry of Industry and Information Technology vigorously promotes the development of 5G applications and accelerates the construction of 5G networks. Telecom operators actively cooperate with system integrators, equipment manufacturers and other industrial chain parties to promote the realisation of “cloud network convergence” strategies. “Broadband China” strategy reaches its final stage. “New Infrastructure” deployment is massively turning on. According to the Commodity Research Unit, communication network operators’ fixed-line and 5G construction will be on track by 2021, the global demand for optical fiber cables is expected to grow by 7%. At the same time, driven by the construction of ubiquitous optical fiber networks, the demand for optical fiber cables will maintain a relatively stable growth in the next few years. The expansion of market demand in the optical fiber cables industry will also drive the accelerated layout of the industrial chain.

Year 2021 signifies the start of the 14th Five-Year Plan for China’s national development. China’s information and communications industry will be guided by the “14th Five-Year Plan” to further push forward constructions in Internet Power and Digital Power, expand the 5G network coverage, speed up construction over data centers and other new infrastructures, and strive for a continuous high-quality development in the information and communications industry.

In 2021, the Group (i) sets its core strategies in vertical integration of the industrial chain, product system innovation and upgrading, business diversification and operational management system continued optimisation; (ii) consolidates its major businesses in communication copper cables, optical fiber cables and structured cabling system products; and (iii) explores business opportunities with potential partners in parallel industries, such as data centers, smart homes, intelligent buildings to provide them with system solution services and high-end products. The Group will also identify target companies with industry competitive advantages for mergers and acquisitions opportunities, to shape itself as a leading company in the emerging industries of strategic importance in intelligent manufacturing.

At present, the Group's construction project of production line of new non-dispersive single-mode optical fiber and optical fiber cables is in the final stage. It is expected to be completed in the first half of 2021 and commence the production in the second half of 2021. Optical fiber production plant put into operation will bring long-term returns to the Group. Continuous improvement of optical fiber production capacity helps the Group reduce its production costs for better profitability and satisfy clients' personalised service requirements. Further, it enhances the Group's technological innovation capabilities and improves its influence and competitiveness in the industry.

"New infrastructure" brings not only opportunities, but also challenges. The development in industries of optical communication, 5G, industrial Internet and other fields brings along higher requirements in the construction of communication networks. Large bandwidth, high speed, low latency, multi-connection and intelligent applications require strong support from more innovative communication products. In order to meet the growing market demand, the Group will focus on the development of optical fiber cable-based 5G communication network products and solutions, continue to reform its communication copper cables and structured cabling system products, to enhance its product innovation and development, continue to introduce first-class research and development team and actively respond to the industry changes and the market demand in high-quality products.

Looking forward to the new year, the Group will adhere to the development strategies in the industrial chain integration and product differentiation, with a global view to structure organisational changes and major project innovation, seize the opportunities brought about by new infrastructure construction, and deeply practise the "optical fibers and cables connect the world" mission, and jointly draw a grand blueprint.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers, suppliers, professional parties, business partners and the public community for their support to our business. I would also like to express our sincere thanks to all our employees for their hard work and contribution.

I strongly believe that the concerted effort of staff and stakeholders will continue to propel the growth momentum of the Group going forward.

Wang Qiuping

Chairlady

MANAGEMENT DISCUSSION AND ANALYSIS

A. FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fiber cables, communication copper cables and structured cabling system products, which represent three reportable segments of the Group. Total revenue of the Group decreased by approximately 29.2% from approximately RMB768.3 million for the Last Year to approximately RMB544.1 million for the Year. Among which, revenue derived from sale of optical fiber cables decreased by approximately 48.5% from approximately RMB241.9 million for the Last Year to approximately RMB124.6 million for the Year; revenue derived from sale of structured cabling system products decreased by approximately 30.6% from approximately RMB217.1 million for the Last Year to approximately RMB150.6 million for the Year; and revenue derived from sale of communication copper cables decreased by approximately 13.1% from approximately RMB309.3 million for the Last Year to approximately RMB268.9 million for the Year.

Gross profit and margin

Gross profit decreased by approximately 34.1% from approximately RMB184.4 million for the Last Year to approximately RMB121.6 million for the Year. The Group's gross profit margin declined from approximately 24.0% for the Last Year to approximately 22.3% for the 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 decreased by approximately 19.4% from approximately RMB42.8 million for the Last Year to approximately RMB34.5 million for the Year, primarily due to the decrease of approximately RMB2.5 million in salaries and welfare expenses for the selling and marketing staff and RMB3.5 million in the transportation expenses. Selling expenses as a percentage of the Group's revenue slightly increased, which was approximately 6.3% for the Year as compared to approximately 5.6% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB41.4 million for the Year, which decreased by approximately 15.7% as compared to the one of approximately RMB49.1 million for the Last Year as a result of the decrease in research and development expenses by approximately RMB7.7 million.

Finance costs

Finance costs decreased by approximately 63.3% from approximately RMB7.9 million for the Last Year to approximately RMB2.9 million for the Year. The decrease was due to that a significant part of the interest of approximately RMB13.2 million (2019: approximately RMB7.9 million) incurred for bank and other borrowings which was used to support the construction of the optical fiber production plant was capitalised during the Year.

Income tax expense

Income tax expense decreased by approximately 52.7% from approximately RMB16.9 million for the Last Year to approximately RMB8.0 million for the Year, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 20.2% for the Last Year and approximately 19.8% for the Year.

Profit for the Year

Profit for the Year decreased by approximately 51.6% from approximately RMB66.8 million for the Last Year to approximately RMB32.3 million for the Year.

Particulars of the Group's segment information are set out in note 6 to the Consolidated Financial Statements.

Cash position

As at 31 December 2020, the Group had an aggregate of restricted cash, cash and cash equivalents of approximately RMB73.0 million (2019: approximately RMB96.9 million), representing a decrease of approximately 24.7% as compared to that as at 31 December 2019. As at 31 December 2020, the Group had restricted cash of approximately RMB30.0 million (2019: RMB22.5 million) that was pledged to banks for various banking facilities.

Borrowings and charges on the Group's assets

As at 31 December 2020, the Group had bank borrowings of approximately RMB169.5 million (2019: approximately RMB130.0 million) and out of which RMB150.5 million was secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates and RMB19.0 million was unsecured. Bank and other borrowings of approximately RMB126.2 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 HKD200.0 million (the "**Loan**"). The first batch of the Loan of HKD100.0 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.

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.

Save as disclosed in this annual report, the Group did not have any charges of assets as at 31 December 2020 (2019: 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 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.68 (2019: approximately 0.71).

Total debt to total asset ratio

As at 31 December 2020, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.40 (2019: approximately 0.42).

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 and other 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 and other 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 2020 and 2019 bore interest at floating rates. The interest rate and repayment terms of bank and other borrowings at the end of each reporting period are disclosed in note 23 to the Consolidated Financial Statement.

The Group's exposures to interest rate risk are detailed in note 35(a) to the Consolidated Financial Statements.

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk was the risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

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

In order to minimise the credit risk, the Directors 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.

The Group's exposures to credit risk are detailed in note 35(b) to the Consolidated Financial Statements.

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.

The Group's remaining contractual maturity for its non-derivative financial liabilities was detailed in note 35(c) to the Consolidated Financial Statements.

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 minimised 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.

The Group's exposures to currency risk are detailed in note 35(d) to the Consolidated Financial Statements.

Capital Commitments

As at 31 December 2020, 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 RMB36.4 million (2019: approximately RMB86.2 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 first half of 2021.

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 2020, the Group had approximately 412 employees (2019: approximately 541 employees). For the Year, the Group incurred staff costs of approximately RMB38.3 million (2019: approximately RMB47.9 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.

B. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to complying with related environmental laws and legislations, and continual improvement on its performance. The Environmental, Social and Governance Report was set out on page 35 of this annual report in compliance with Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

C. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintaining a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report was set out on page 35 of this annual report.

D. COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in this annual report, during the Year, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Ms. Wang Qiuping (王秋萍), aged 57, is an executive Director, the chairlady of the Board and chief executive officer of the Company responsible for the overall business management and strategic planning of the Group. Ms. Wang is also the founder of the Group and one of the controlling shareholders. Before the establishment of the Group, Ms. Wang worked in the Jiangxi Province Communication and Electric Cable Factory* (江西省通信電纜廠) from 1984 to 1991, with her last position responsible for advertising. In November 1999, Ms. Wang set up Jiangxi Putian Building Intelligence Co., Ltd. ("**Jiangxi Building**"), which has been principally engaged in the sales of structured cabling system products since its incorporation. Save for Jiangxi Changtian Optical Communication Co., Ltd ("**Jiangxi Optical**"), Ms. Wang is a director of each of the subsidiaries of the Group. Ms. Wang is also a supervisor of Jiangxi Optical. Ms. Wang has been the deputy to the People's Congress of Nanchang City (南昌市人大代表) since October 2016. Ms. Wang obtained a diploma in basic theory of Marxism* (馬列主義基礎理論) from Jiangxi Normal University (江西師範大學) in the PRC in December 1986.

Ms. Wang was awarded "May 1" Jinguo Biaobing (五一巾幗標兵) of Jiangxi Province by Jiangxi Federation of Trade Unions in March 2018 and was recognised as 2018 Outstanding Entrepreneur of Nanchang High-tech Industrial Development Zone by Nanchang High-tech Industrial Development Zone Government in March 2019.

Ms. Wang is the spouse of Mr. Zhao, the mother of Ms. Zhao Moge and the sister-in-law of Mr. Ye Fanxiu.

Mr. Zhao Xiaobao (趙小寶) (alias Zhao Baohua (趙保華)), aged 56, is an executive Director responsible for the overall sales of the Group. He joined the Group in June 2001. Mr. Zhao is a director of each of Putian Cable Group Co., Ltd and Jiangxi Optical and a supervisor of Jiangxi Building. Mr. Zhao has more than 19 years of experience in the production and sales in the telecommunications industry. Before joining the Group, he had worked as an officer at the regulatory division of the Administration for Industry and Commerce of Nanchang City from 1984 to 1999, responsible for the execution of relevant laws, rules and regulations relating to commodity trading markets in Nanchang.

Mr. Zhao obtained a diploma in business administration management (工商行政管理) from Wuhan University (武漢大學) in the PRC in July 1992.

Mr. Zhao is the spouse of Ms. Wang, the father of Ms. Zhao Moge and the brother-in-law of Mr. Ye Fanxiu.

Ms. Zhao Moge (趙默格), aged 32, is an executive Director responsible for the overall operation and finance of the Group.

Ms. Zhao joined the Group in July 2011 and had held various positions. She first started working for the Group as an administrative executive responsible for administrative matters. She became an accounting assistant in May 2012 and was promoted to accounting manager with responsibility for managing and overseeing the daily operation of accounting department in July 2014. In April 2015, she became the general manager of Putian Cable (Shanghai) Building Intelligence Co., Ltd ("**Putian Cable (Shanghai)**") and was responsible for the marketing and sales in the PRC market. Ms. Zhao is a director of Putian Cable and a supervisor of Putian Cable (Shanghai). Ms. Zhao obtained a bachelor of engineering from Nanchang University (南昌大學) in the PRC in June 2011.

Ms. Zhao is the daughter of Ms. Wang and Mr. Zhao.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheng Shing Yan (鄭承欣) ("**Ms. Cheng**"), aged 46, was appointed as an independent non-executive Director on 21 October 2017. She is the chairlady of the audit committee of the Company (the "**Audit Committee**") and a member of each of the nomination committee (the "**Nomination Committee**") and the remuneration committee of the Company (the "**Remuneration Committee**").

Ms. Cheng has about 23 years of experience in the fields of accounting and auditing. Ms. Cheng joined the group of Sanroc International Holdings Limited ("**Sanroc**") (now known as Zhaobangji Properties Holdings Limited), which is listed on the Main Board of the Stock Exchange (stock code: 1660), as the chief financial officer of Sanroc from April 2016 to April 2018 and as the chief financial officer of certain subsidiaries of Sanroc since April 2018. Ms. Cheng had also been the company secretary and an executive director of Sanroc International Holdings Limited from April 2016 to April 2018 and from April 2017 to April 2018, respectively. Ms. Cheng has been an independent non-executive director of Kwong Luen Engineering Holdings Limited (stoke code: 1413) since March 2021 and China Shenghai Food Holdings Company Limited (stock code: 1676) from July 2017 to 19 October 2019.

Ms. Cheng obtained a degree of Master of Arts in International Accounting at the City University of Hong Kong in November 2003, and was admitted as a member, and a fellow member, of the Association of Chartered Certified Accountants (the "**ACCA**") in December 2000 and December 2005, respectively. She was also admitted as an associate of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants (the "**HKICPA**")) since July 2003. Ms. Cheng has also been admitted as an associate of both The Hong Kong Institute of Chartered Secretaries (the "**HKICS**") and The Institute of Chartered Secretaries and Administrators (now known as the Chartered Governance Institute) (the "**ICSA**") in June 2017.

Mr. Liu Guodong (劉國棟), aged 44, was appointed as an independent non-executive Director on 21 October 2017. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Liu has more than 16 years of experience in the optical research field. He has been a professor of Jiangxi Science & Technology Normal University (江西科技師範大學) (formerly known as Jiangxi Science & Technology Normal College* (江西科技師範學院) since December 2004. He has served as the executive director (常務理事) and secretary-general of Optical Society of Jiangxi Province* (江西省光學學會) from 2004 until now. He served as a member of Biomedical Photonics Committee of China Optical Society* (中國光學學會生物醫學光子學專業委員會) from August 2009 to August 2013. He served as a member of Optoelectronic Technology Committee of China Optical Society* (中國光學學會光電技術專業委員會) from September 2007 to September 2011. From October 2006 to October 2010, Mr. Liu served as a member of editorial board for "Applied Optics". Mr. Liu served as the vice chairman of the National Optical Youth Academic Forum* (全國光學青年學術論壇) from December 2009 to December 2013.

Mr. Liu obtained a doctorate degree in optical science and engineering (光學工程) from Tsinghua University (清華大學) in the PRC in January 2004.

Mr. Xie Haidong (謝海東), aged 49, was appointed as an independent non-executive Director on 21 October 2017. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Xie is currently an associate professor and a tutor for master students (碩士生導師) of Finance Department of School of Economics and Management of Nanchang University* (南昌大學經濟管理學院). He also serves as a director of the eighth board of Council of Finance of Jiangxi Province* (江西省金融學會). From January 2016 to October 2018, Mr. Xie served as the Head of Finance Department of School of Economics and Management of Nanchang University. From November 2009 to November 2012, Mr. Xie served as a special researcher of Development Research Center of the People's Government of Jiangxi Province* (江西省政府發展研究中心). From September 2010 to December 2016, Mr. Xie served as deputy director of Industrial Economics Research Institute of Central China Economic and Social Development Research Center of Nanchang University* (南昌大學中國中部經濟社會發展研究中心產業經濟研究所). From 2013 to 2015, Mr. Xie served as a consulting expert in relation to issuance of corporate bond for Reform and Development Commission of Jiangxi Province* (江西省發展與改革委員會). Prior to the aforesaid, he worked for enterprise investigation team of Statistics Bureau of Jiangxi Province* (江西省統計局) from January 1997 to December 2004. He was a business director of Jiangxi Branch of business department of Kunwu Jiuding Investment Management Co., Ltd.* (昆吾九鼎投資管理有限公司), a wholly-owned subsidiary of Jiangxi Zhong Jiang Real Estate Co., Ltd. (江西中江地產股份有限公司) (currently known as Kunwu Jiuding Investment Holdings Co., Ltd., 昆吾九鼎投資控股股份有限公司), whose shares are listed on Shanghai Stock Exchange (stock code: 600053) and principal business includes investment management and investment consulting, from February 2011 to October 2011. He was a guest faculty (訪問學者) in the department of finance at University of Notre Dame in the United States from August 2014 to August 2015.

Mr. Xie graduated from Nanchang University (南昌大學) in the PRC with a bachelor of economics degree in July 1994. He further earned a master of economics degree from Jiangxi University of Finance and Economics (江西財經大學) in the PRC in June 2002 and a doctorate degree in political economics from Shanghai University of Finance and Economics (上海財經大學) in the PRC in January 2007.

SENIOR MANAGEMENT

Mr. Zeng Haowen (曾浩文), aged 50, is the production director of the Group responsible for overseeing the overall production of the Group. Mr. Zeng has over 29 years of working experience in the field of cable and wire. Mr. Zeng joined the Group in February 2006 and first served as a manager of production department before he was promoted to the current position in March 2011. Prior to joining the Group, Mr. Zeng worked for Jiangxi Fan Ya Electric Wire and Cable Co., Ltd* (江西泛亞電線電纜有限公司) from August 1991 to January 2006, and he last served as the person in charge of the maintenance section of equipment department. Mr. Zeng obtained a diploma in mold design and manufacturing (模具設計與製造) from Jiangxi Science & Technology Normal University (江西科技師範大學) in the PRC in January 2013. He obtained the qualification as safety management associate* (安全管理人員) from Administration of Work Safety of Nanchang City (南昌市安全生產監督管理局) in August 2015. He also obtained the qualifications as electric welder (電焊工) and bench worker (鉗工) from Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國勞動和社會保障部) in April 2001 and May 2004 respectively.

Mr. Huang Guangnian (黃光年), aged 45, is the research and development director of the Group responsible for the research and development and quality management of the Group. He joined the Group in February 2007. Mr. Huang has over 19 years of working experience in the field of research and development. Prior to joining the Group, Mr. Huang worked in the technology department of Jiangxi Province Nanchang Telecommunications and Equipments Factory* (江西省南昌電信器材廠) from 2001 to 2006, and he was responsible for product development. He was awarded Second Prize of Outstanding New Product of Jiangxi Province for Year of 2003* (2003年江西省優秀新產品二等獎) by Economic and Trade Commission of Jiangxi Province* (江西省經濟貿易委員會) in 2004. Mr. Huang obtained a diploma in applied computer (計算機應用) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1997. He obtained the preliminary professional qualification as assistant engineer from Career Title Reform Leading Group Office of De An County* (德安縣職稱改革領導小組辦公室) in November 2000 and was appointed as assistant engineer of Jiangxi Province De An Cement Factory* (江西省德安水泥廠) from February 2001 to February 2004.

Ms. Zhou Zhi (周治), aged 44, is a chief business officer of business center of the Group responsible for overall sales strategies and planning of the Group. Ms. Zhou joined the Group in September 2004 and first served as a manager of sales department and was promoted to the current position in July 2012. Prior to joining the Group, Ms. Zhou worked as a sales officer at the grid information group of Taihao Technology Company Limited* (泰豪科技股份有限公司) from 1999 to August 2004, responsible for sales. Ms. Zhou obtained a diploma in engineering and civil communication* (工程與民用通訊) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1999.

Mr. Ye Fanxiu (葉反修), aged 59, is a procurement and logistics director of the Group responsible for overall procurement and logistics operation of the Group. Mr. Ye has over 31 years of experience in electronic industry. He joined the Group in September 2008, and he first served as procurement and logistics manager and was promoted to the current position in September 2013. Prior to joining the Group, he worked for Jiangxi Electronic Equipment Factory* (江西電子儀器廠) from October 1981 to July 2000, and he last served as chief controller of production division responsible for overseeing the production process of electronic equipment. Mr. Ye obtained a diploma in journalism from Jiangxi University (江西大學) in the PRC in July 1990. Mr. Ye is the brother-in-law of Ms. Wang and Mr. Zhao.

Ms. Lai Yeung Fun (黎樣歡), aged 42, is the chief financial officer and the company secretary of the Company. She is responsible for financial planning and reporting, internal control, and overall corporate secretarial matters of the Group. Ms. Lai has about 18 years of experience in financial management, accounting and auditing work. Ms. Lai obtained a degree of master of science in corporate governance & compliance from the Hong Kong Baptist University in November 2019. Ms. Lai graduated from the City University of Hong Kong with a bachelor degree in accountancy in November 2003. She was admitted as a member of Association of Chartered Certified Accountants in June 2009. She currently is a member of Hong Kong Institute of Certified Public Accountants. Ms. Lai has also been admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in March 2020.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Board presents to the shareholders of the Company this report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are production and sale of optical fiber cables, communication copper cables and structured cabling system products in the PRC. The principal activities of the subsidiaries are set out in note 30 to the Consolidated Financial Statements. There was no significant change in the Group's principal activities during the Year.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this annual report.

The Board did not recommend the payment of a final dividend for the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had reserves amounted to approximately RMB89.4 million available for distribution as calculated based on the Company's share premium, other reserves and accumulated losses under applicable provisions of the Companies Law in the Cayman Islands. Details of the distributable reserves of the Company are set out in note 29 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year is set out in note 16 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 25 to the Consolidated Financial Statements.

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 Year.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5 of this annual report. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

The review of the business of the Group during the Year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis", and the description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed, "Management Discussion and Analysis". The financial risk management objectives and policies of the Group are set out in note 35 to the Consolidated Financial Statements. In addition, discussions on the Group's relationships with key stakeholders, environmental policies and performance and compliance with relevant laws and regulations which have a significant impact on the Group are as follows:

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

The Group is committed to establishing a close and caring relationship with its employees. The Group provides a fair and safe workplace, promotes diversity to the staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

Customers and suppliers

During the Year, the Group's five largest suppliers contributed approximately 48.0% of the Group's total purchase. The largest supplier has attributed to approximately 26.3% of the Group's total purchase. The Group sold products directly to customers which included the major telecommunication network operators in the PRC. The largest customer has accounted for approximately 27.5% of the total sales. The Group's sales generated from top five customers has attributed to approximately 52.3% of the Group's total sales. Save as disclosed above, none of the Directors, their respective close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

The Group is able to build up close working relationship with its business partners and bring together the customers and suppliers to develop foundation technology. The Directors have frequent interactions with the customers regarding their feedbacks on the quality of our products which would then be reflected to the suppliers. Through this solid communication channel together with our experienced management team, the Directors believe that we are able to better understand our customers' needs as well as the market trend in order to make appropriate modifications or improvements to our products.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We believe that our business also depends on our ability to meet our customers' requirements in respect of safety, quality and environmental aspects. To fulfil our customers' requirements on safety, quality and environmental aspects, we have established and implemented various quality control measures in our operation process. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Directors confirmed that during the Year and up to the date of this annual report, the Group had obtained all the registrations and certifications required for its business and operations and had complied with the applicable laws and regulations in the PRC.

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao (alias Zhao Baohua)

Ms. Zhao Moge

Non-Executive Director

Ms. Jiang Xuefeng (resigned on 31 July 2020)

Independent Non-Executive Directors

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

Information regarding directors' emoluments are set out in note 14 to the Consolidated Financial Statements.

The Directors' biographical details are set out in the section headed "Directors and Senior Management's profile" in this annual report.

In accordance with article 83(3) of the Articles of Association of the Company (the "**Articles**"), any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Pursuant to article 84(1) of the Articles, at every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, Mr. Zhao Xiaobao and Ms. Cheng Shing Yan will retire from office as Directors at the forthcoming annual general meeting of the Company. All of them being eligible will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company which is initially for a fixed term of 3 years, commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, and shall continue thereafter until terminated by not less than one month's written notice to the other party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company which is initially for a fixed term of 2 years, commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term. The appointment is subject to termination under certain circumstances as stipulated in the said letter of appointment, and the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Each of the executive Directors and independent non-executive Directors is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Articles.

Apart from the foregoing, none of the Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the Year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against a liability incurred by Directors to a third party during the Year and up to the date of this annual report.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the Year.

DIVIDEND POLICY

The proposal of payment and the amount of dividends will be made at the discretion of the Board and will be depended on the Group's general business condition and strategies, cash flows, financial results and capital requirements, the interests of the shareholders, taxation conditions, statutory and regulatory restrictions and other factors that the Board deems relevant.

In addition, as the Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, some of which are incorporated in the PRC, the availability of funds to pay distributions to shareholders and to service the Group's debts depends on dividends received from these subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors or chief executive of the Company in the shares of the Company (the "**Shares**"), or any of the associated corporations (within the meaning of Part XV of the SFO) which shall have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) or shall be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or shall be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares

Name of director	**Capacity/Nature of interest**	**Number of shares held** (Note 1)	**Approximate percentage of shareholding**
Ms. Wang Qiuping	Interest in a controlled corporation (Note 2)	408,375,000	37.13%
Mr. Zhao Xiaobao	Interest in a controlled corporation (Note 3)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.

2. These Shares are held by Arcenciel Capital Co., Ltd ("**Arcenciel Capital**"), which is wholly owned by Ms. Wang. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.

3. These Shares are held by Point Stone Capital Co., Ltd ("**Point Stone Capital**"), which is wholly owned by Mr. Zhao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had registered an interest or short position in the Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under provision of the SFO) or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the Shares, the underlying Shares and debentures of the Company and its associated corporation within the meaning of Part XV of the SFO which were required to be disclosed pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein, were as follows:

Name of shareholder	**Capacity/Nature of interest**	**Number of shares held** (Note 1)	**Approximate percentage of shareholding**
Arcenciel Capital Co., Ltd.	Beneficial owner (Note 2)	408,375,000	37.13%
Point Stone Capital Co., Ltd.	Beneficial owner (Note 3)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.
2. These Shares are held by Arcenciel Capital, which is wholly owned by Ms. Wang Qiuping. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.
3. These Shares are held by Point Stone Capital, which is wholly owned by Mr. Zhao Xiaobao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

Pursuant to written resolutions passed on 21 October 2017, the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme will remain in force for a period of 10 years commencing on 21 October 2017. No share options have been granted under the Share Option Scheme since its effective date and up to 31 December 2020 and hence there was no outstanding options as at 31 December 2020. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the Board may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the Listing date (i.e. not exceeding 110,000,000 shares).

The maximum entitlement of each Eligible Participants under the Share Option Scheme shall be:

(a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of such limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules; and

(b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any twelve month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since from the date adopted this Share Option Scheme till the end of the year ended 31 December 2020 and there was no outstanding share option as at 1 January 2020 and 31 December 2020.

No share-based payment expense was recognised for the year ended 31 December 2020 in relation to share options granted by the Company.

As the date of this annual report, the Company may grant up to 110,000,000 share option under the Share Option Scheme, which represented 10% of the Company's share in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

CONNECTED TRANSACTIONS

The Group had not entered into any transactions constituted connected transactions (including continuing connected transactions) which is subject to the disclosure requirements under Chapter 14A of the Listing Rules during the Year.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the Year are set out in note 28 to the Consolidated Financial Statements. The related party transactions of the Group do not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

COMPETING BUSINESS

The Company received confirmations from the controlling shareholders of the Company in January 2021 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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Board on the basis of their merit, qualifications and competence. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to eligible persons, details are set out in the section headed "Share Option Scheme" in this annual report and the section headed "Statutory and General Information – 15. Share option scheme" in the Prospectus.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit schemes are set out in note 10 to the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

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 annual report, the Company has maintained sufficient public float throughout the Year as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's turnover and purchases attributable to major customers and suppliers during the years ended 31 December 2019 and 2020 are as follows:

	For the year ended	
	31 December 2020	31 December 2019
Percentage of turnover		
From the largest customer	**27.5%**	35.3%
From the five largest customers in aggregate	**52.3%**	63.2%
Percentage of purchase		
From the largest supplier	**26.3%**	16.2%
From the five largest suppliers in aggregate	**48.0%**	50.1%

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest suppliers or customers.

EVENTS AFTER THE REPORTING PERIOD

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.

AUDITOR

The consolidated financial statements have been audited by BDO Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

The Company has not changed its auditors during the Year and up to the date of this annual report.

On behalf of the Board

Wang Qiuping
Chairlady

Hong Kong, 31 March 2021

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for 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 during the Year. The key corporate governance principles and practices of the Company are outlined in this report.

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. 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 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.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, overseeing the Group's strategic decisions and monitoring its business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the shareholders of the Company at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

BOARD COMPOSITION

During the Year and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao (alias Zhao Baohua)

Ms. Zhao Moge

Non-Executive Director:

Ms. Jiang Xuefeng (resigned on 31 July 2020)

Independent Non-Executive Directors:

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

To the best knowledge of the Directors, save and except Ms. Wang Qiuping and Mr. Zhao Xiaobao are spouse and Ms. Zhao Moge is the daughter of Ms. Wang Qiuping and Mr. Zhao Xiaobao, there was no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

The biographies of the Directors are set out under the section headed "Directors and Senior Management's Profile" of this annual report.

During the Year, the Company has been in compliance with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of the Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider the Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. The Board diversity policy sets out the approach towards achieving diversity on the Board. Pursuant to the Board diversity policy, all Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Directors' Continuing Professional Development

Each Director was provided with the necessary training and information to ensure that he/she has proper understanding of the responsibilities under the Listing Rules and the applicable law, rules and regulations. The Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. The Company will continue to arrange suitable training and regular seminars to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time.

Appointment and Re-election of Directors

Each of the executive Directors has signed a service contract with the Company for a term of three years commencing from their respective date of appointment and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, subject to termination as provided in the service contract.

Each of the independent non-executive Directors has signed an appointment letter ("**Letter**") with the Company for a term of two years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term.

The appointments of executive Directors, non-executive Director and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the articles of association of the Company (the "**Articles**") and the applicable Listing Rules. The procedures and process of appointment, re-election and removal of Directors are set out in the Articles.

In accordance with the article 84(1) of the Articles, at every annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to article 83(3) of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Meetings, General Meetings and Attendance of Directors

The Board is committed to holding regular board meetings at least four times a year at approximately quarterly intervals. The Group establishes an effective communication among all the Directors.

Since 1 January 2020 and up to the date of this annual report, the Company held nine Board meetings, three Audit Committee meetings, two Remuneration Committee meetings and three Nomination Committee meetings. The attendance record of each Director at the abovementioned Board meetings and committee meetings has been set out below.

	Attendance/Number of				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*	9/9	N/A	N/A	N/A	1/1
Mr. Zhao Xiaobao (alias Zhao Baohua)	9/9	N/A	N/A	N/A	1/1
Ms. Zhao Moge	9/9	N/A	N/A	N/A	1/1
Non-executive Director					
Ms. Jiang Xuefeng (resigned 31 July 2020)	2/3	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Ms. Cheng Shing Yan	9/9	3/3	2/2	3/3	1/1
Mr. Liu Guodong	9/9	3/3	2/2	3/3	1/1
Mr. Xie Haidong	9/9	3/3	2/2	3/3	1/1

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 Year.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

BOARD COMMITTEE

The Board has established the audit committee, the remuneration committee and the nomination committee and delegated various responsibilities to these committees, which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

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 our 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 our financial statements, our annual report and accounts and our half-year report, and reviewing significant financial reporting judgments 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 2020 and up to the date of this annual report, 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 ended 31 December 2020 and this annual report, 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 our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our 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 our Board of the remuneration of our independent non-executive Directors; and (c) reviewing and approving our management's remuneration proposals with reference to our 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 2020 and up to the date of this annual report, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

The Company established a nomination committee (the "**Nomination Committee**") on 21 October 2017 with written terms of reference in compliance with paragraph A.5 of the CG Code. The duties of the Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or re-appointment of our Directors and succession planning for our 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 2020 and up to the date of this annual report, 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.

BOARD DIVERSITY POLICY

The Board adopts a board diversity policy. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Diversity of Board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional qualifications, industry and regional experience, skills, knowledge and length of service. All the Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that the appropriate accounting policies are selected and applied consistently. The reporting responsibilities of the Company's external auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 51 to 55 of this annual report. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The remuneration for the audit services provided by the Auditor to the Group during the Year amounted to approximately RMB1.08 million.

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities of the Board

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management, internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve the Group's business.

Risk Management and Assessment

The Company has established formal risk assessment criteria for the Group. Senior management identifies risks that potentially impact the key processes of the operations on an annual basis. Risks are scored and ranked by their impact on the business and the likelihood of their occurrence. Senior management assesses the effectiveness of the existing controls and formulates risk mitigating activities. Results of the annual risk assessment are reported to the Audit Committee, including amongst other things, significant risks of the Group and the appropriate control activities to mitigate and/or transfer the identified risks objectives.

Internal Control

The Company has established defined levels of responsibilities and reporting procedures. Controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are identified and assessed.

The Company has internal audit function which is primarily responsible for developing various internal control manuals and procedures, conducting reviews on the key operational processes and the related internal controls to ensure compliance with the Group's risk management and internal control policies and procedures.

The Group has engaged a consulting firm to conduct an annual review of the effectiveness of the internal control system of the Group including making recommendations to enhance the overall internal control system for the year ended 31 December 2020. The internal control review report has been approved by the audit committee and the Board. Based on the internal control review report and its own assessment, the Board considered that the Company's internal control system is adequate and effective.

Review of Risk Management and Internal Control Systems

The Audit Committee assists the Board in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committees are kept informed of significant risks that may impact on the Group's performance. For the Year, the Board considered the risk management and internal control systems of the Group to be effective and adequate. The Audit Committee has reviewed and is satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, and financial reporting function.

Procedures and Controls over Handling and Dissemination of Inside Information

The Company is aware of its obligation under relevant sections of the Securities and Futures Ordinance (the "**SFO**") and the Listing Rules. An Inside Information Policy has been established to lay down practical guidelines on definition of inside information, compliance and reporting, disclosure and announcement of inside information. All members of the Board, senior management, head of departments, and staff who are likely to possess inside information are strictly bound by this policy. Staff who have access to inside information is required to keep the unpublished inside information confidential until relevant announcement is made. Failure to comply with such requirements may result in disciplinary actions.

COMPANY SECRETARY

The role of the company secretary of the Company is performed by Ms. Lai Yeung Fun. The company secretary is responsible for facilitating the Board's communications among Board members, the Shareholders and the management of the Company and ensuring the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

Ms. Lai Yeung Fun has confirmed that she took not less than 15 hours of relevant professional training during the Year in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable the Shareholders and investors to make the informed investment decisions. To promote effective communication, the Company adopts a shareholders communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at www.potel-group.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

The Company seriously takes care the Shareholders' interest to ensure that they are treated fairly and are able to exercise their Shareholders' rights effectively. Shareholders are entitled by the Articles of the Company and are also encouraged to participate in the Company's general meetings.

Convening of extraordinary general meeting

In accordance with the Articles, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an extraordinary general meeting (the "**EGM**") to be called by the Directors for the transaction of any business specified in such requisition. Such requisition shall be made in writing to the Board or the company secretary of the Company which is situated at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong. The EGM shall be held within two months after the deposit of such requisition. If the Directors fail to proceed to convene such meeting within 21 days of such deposit, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals by Shareholders at Shareholders' meeting

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of the proposal ("**Proposal**") with his/her/its detailed contact information at the Company's headquarters and principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's Hong Kong share registrar at their respective address. The request will be verified with the Company's Hong Kong share registrar and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the Hong Kong office of the Company at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENT

There is no significant change in the Company's constitutional documents during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

We are pleased to present the Environmental, Social and Governance ("**ESG**") report for the year ended 31 December 2020 (the "**Year**"). The ESG report published by the Company highlights the works in sustainable development and the performance in social governance of the Group for the Year.

Scope of the Report

The ESG report mainly covers the environmental and social policies of the Group's business in manufacturing communication cable and focuses on the performance in environmental and social aspects of Putian Cable Group Co., Ltd. ("**Putian Cable**"), the principal operating subsidiary of the Group. The key performance indicators ("**KPIs**") disclosed during the Year focus on two plants of Putian Cable located in Jiangxi Province in the People's Republic of China (the "**PRC**"). The abovementioned reporting boundaries were carefully determined by the Group based on the material entities and operations that have or will exert a great impact on the Group's business in the long run. For details of corporate governance, please refer to the Corporate Governance Report on pages 27 to 34 of this annual report of the Year.

Reporting Framework

The ESG report was prepared in accordance with Appendix 27 the "Environmental, Social and Governance Reporting Guide" under Main Board Listing Rules on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and in compliance with the "comply or explain" provision thereof.

Reporting Principles

The content of the ESG report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the management and stakeholders' opinions, assessing the relevance and materiality of the issues and preparing and validating the information reported. Please refer to the section "Stakeholders Engagement" for details. The ESG report has covered all key issues that are concerned by different stakeholders.

Quantitative environmental and social KPIs are disclosed in the ESG report so that stakeholders are able to have a comprehensive understanding of the Group's ESG performance. Information of the standards, methodologies, references and source of key emission of these KPIs are stated wherever appropriate. To enhance the comparability of the ESG report, the Group adopts consistent reporting format and methodologies for calculating KPIs as far as practicable. In case of any changes, explanation will be provided in the ESG report to facilitate information interpretation.

Information and Feedback

For more information on the Group's environmental and corporate governance, please refer to the official website (www.potel-group.com) and the annual report of the Group. If you have any comments or suggestions on this ESG report, please feel free to contact us via email at info@potel-group.com.

BOARD STATEMENT

The Group believes that a sound ESG and sustainability framework builds the foundation for an optimum ESG performance and well-rounded sustainable development. In order to better monitor and manage the Group's policies, measures and work regarding ESG, the Board of Directors (the "**Board**") is directly responsible for the oversight of the Group's ESG-related issues, including formulating strategies and reporting material ESG matters, as well as assessing and determining ESG-related risks. The ESG performance of the Group is evaluated regularly to ensure its consistency with the Group's visions and initiatives, and the annual ESG report is reviewed and discussed to ensure its content is aligned with the Board's requirements and the Group's strategies.

Furthermore, the Board is responsible for executing and evaluating the stakeholder engagement process. The Board understands that ESG management involves various topics and therefore has conducted materiality assessment to identify issues that are likely to influence the business and our stakeholders, especially to the environmental and social aspects. The issues would be reviewed and prioritised, and those with high significance to the Group and stakeholders are considered as material. The Board has concluded our material issues in "Stakeholders Engagement" section.

In order to further motivate the Group in pursuing higher ESG-related standards, the Board will continue to keep track with the latest development of the ESG reporting requirements in Hong Kong and set various goals and targets on ESG performance with reference to the Group's most material issues to its business and stakeholders whenever necessary. The Group also shares its progress in ESG with different stakeholders, most notably through the Group's annual ESG report.

STAKEHOLDERS ENGAGEMENT

The Group highly values the communication with its key stakeholders and takes the opinions from stakeholders as the basis for its formulation and implementation of short-term and long-term sustainability strategies. During the Year, stakeholders engagement and materiality assessment have been conducted, which enable us to understand the needs of stakeholders and identify our material topics regarding ESG.

Communication with Stakeholders

The Group promotes its approach and practices in ESG to stakeholders through effective communication channels, such as meetings, announcements, company websites and emails, as well as understands and takes corresponding measures in meeting stakeholders' requirements and expectations. The table below indicates our stakeholders, their requirements and expectations towards the Group, and the corresponding communication channels and responses.

Stakeholders	Requirements and Expectations	Means of Communication and Response
Government and Regulators	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Report information regularly • Meet the regulators regularly • Dedicated reports • Examinations and inspections
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General Meetings • Announcements • Email, telephone communication and company website • Dedicated reports • Site visits
Business Partners	• Operate with integrity • Equal Rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social Media Platforms • Calling for feedback
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection	• Communicate with local environmental department • Communicate with the locals • ESG Reporting
Industry	• Establishment of industry standards • Drive industry development	• Participate in industry forums • Visits and inspections
Employees	• Protection of rights • Occupational health and safety • Remunerations and benefits • Career development • Humanity cares	• Employee communication meetings • House journal and intranet • Employee mailbox • Training and workshop • Employee activity
Community and the Public	• Improve community environment • Participation in charity • Transparent information	• Company website • Announcements • Interview with media • Social media platforms

Materiality Assessment

In the preparation of the ESG report, the Group commissioned an independent third-party consultant for the assistance in conducting the materiality assessment in a just and unbiased manner. The materiality assessment was carried out in the following three main phases:

i. Identifying potential material topics in respect of the Group's ESG performance that might affect its business or stakeholders as follows:

Environment and Resources	Employment and Labour Practices	Operating Practices	Community Investment
1. Environmental Compliance	14. Employment Compliance	21. Operational Compliance	33. Charity
2. Fleet Emissions Management	15. Remuneration and Benefits	22. Managing Environmental Risks of Supply Chain	34. Promotion of Community Development
3. Greenhouse Gas Emission	16. Working Hour and Rest Period	23. Managing Social Risks of Supply Chain	35. Poverty Alleviation
4. Waste Management	17. Diversity and Equal Opportunity	24. Procurement Practices	
5. Energy Consumption	18. Occupational Health and Safety	25. Quality Management	
6. Use of Water Resources	19. Training and Education	26. Responsible Sales and Marketing	
7. Green Office	20. Prevention of Child Labour and Forced Labour	27. Customers Service Management	
8. Green Energy Project		28. Intellectual Property Protection	
9. Green Building		29. Research and Development	
10. Use of Raw Material and Packaging Materials		30. Information Security	
11. Ecological Protection		31. Customer Privacy Protection	
12. Responding to Climate Change		32. Anti-corruption	
13. Prevention and Handling of Environmental Incidents			

ii. Conducting a questionnaire survey to understand the views and expectations of the stakeholders on the Group's response to and disclosure of ESG issues;

iii. Prioritising potential material topics based on questionnaires retrieved and materiality maps provided by well-known external institutions[1]. After the analysis of the survey results along with the judgment by the management, the Group identifies the material topics and highlights them in the ESG report.

[1] The materiality maps referenced in the materiality assessment include the ESG Industry Materiality Map and the SASB Materiality Map produced respectively by Morgan Stanley Capital International (MSCI) and the Sustainability Accounting Standards Board (SASB).

By analysing the results of questionnaire survey and the materiality maps related to the business with consideration to the actual business operation, the Group has identified 8 material topics which are disclosed in details in the ESG report.

Material Topics	Corresponding Sections
Energy Management	Resources Conservation
Waste Management	Emissions Treatment
Occupational Health and Safety	Health and Safety
Training and Education	Training and Development
Quality Management	Quality Assurance
Intellectual Property Protection	Respect for Intellectual Property Rights and Privacy
Information and Privacy Security	Respect for Intellectual Property Rights and Privacy
Anti-corruption	Anti-corruption

After reviewing the identified materials topics related to the ESG aspects, the importance of the ESG performance is recognised and that would be our ongoing process in reaching our future improvements.

ENVIRONMENTAL PROTECTION

As a communication cable manufacturer and a structured cabling system product provider, the Group protects the environment at the area where it operates while striving to develop business. The Group strictly abides by relevant laws and regulations concerning wastes, exhaust gases and wastewater, such as the Environmental Protection Law of the PRC, Energy Conservation Law of the PRC and the National Environmental Emergency Response Plan. The effort of Putian Cable in emission control can be reflected by its GB/T24001-2016/ISO14001:2015 Environmental Management System Certification Certificate obtained.

Putian Cable has implemented a comprehensive system of an emergency response plan and regularly conducted drills, in a bid to secure the well-being of the surrounding environment, as well as arousing the awareness of employees from each department in handling emergency issues. In case of an environmental pollution incident, Putian Cable will act and response in a timely manner by taking measures to minimise hazards and prevent deterioration of the incident. Looking forward, we will deliberate on the prevention of hazards and environmental pollution, and energy and resources conservation at the research and development stage, as well as consider environmentally friendly development and advocate the use of harmless and safe technology during product design, on the premise that the product quality is assured.

Emissions Treatment

In respect of exhaust gas, no industrial exhaust gas is emitted from Putian Cable production process, while other exhaust gases arise from vehicles and oil fume from canteen. The oil fume from canteen will be emitted at high altitude after being treated by oil fume purifier. To reduce exhaust gas emissions and maintain the efficiencies of vehicles and oil fume purifiers, the Group conducts maintenance and examination on its vehicles regularly, and keeps the oil fume purifiers clean in the canteen. Environmental inspection by third party consultant was carried out during the Year and Putian Cable has passed and complied with all the related regulations and laws. The exhaust gases emitted by Putian Cable plants are as follows:

Exhaust Gases ***(Note 1)***	**2020**	2019
Nitrogen oxides (kg)	**9.1**	8.1
Sulphur oxides (kg)	**0.2**	0.2
Particulate matter (kg)	**0.7**	0.6

Note:

1. The calculation was based on the “Appendix 2: Reporting Guidance on Environmental KPIs” issued by the Stock Exchange and “Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)” issued by the National Development and Reform Commission of the PRC.

The greenhouse gas emissions of Putian Cable plants are composed of direct emissions from stationary combustion, use of vehicles and refrigerant, energy indirect emissions from purchased electricity, and other indirect emissions from electricity used for fresh water and sewage processing by local government and overseas business travel. Putian Cable also encourages its employees to commute with economical and eco-friendly transportations, including public buses and bicycles. The greenhouse gas emissions of Putian Cable plants are as follows:

Greenhouse Gases	**2020**	2019
Total greenhouse gas emissions (tonnes CO_2e)	**2,494**	3,311
Greenhouse gas emissions per square metre (tonnes CO_2e/m^2)	**0.06**	0.08
Greenhouse gas emissions per revenue (tonnes CO_2e/RMB'000)	**0.005**	0.004
Scope 1 – Direct emissions *(Note 1)* (tonnes CO_2e)	**42**	39
Scope 2 – Energy indirect emissions *(Note 2)* (tonnes CO_2e)	**2,443**	3,262
Scope 3 – Other indirect emissions *(Note 3)* (tonnes CO_2e)	**9**	10

Notes:

1. Based on the "Land Transport Enterprises – Guidelines for Accounting and Reporting of Greenhouse Gas Emissions (Trial)" and "Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)" issued by the National Development and Reform Commission of the PRC.

2. Based on the emission factors from the "Average Carbon Dioxide Emission Factors of China Regional Power Grid 2011 and 2012" issued by the National Development and Reform Commission of the PRC.

3. Calculated based on the International Civil Aviation Organisation Carbon Emissions Calculator and the data provided by Shenzhen Water (Group) Co., Ltd.

Waste scrap and incoming packaging materials from the production process are the major non-hazardous wastes of Putian Cable and are recycled as far as possible. Another type of non-hazardous wastes is domestic garbage, which is collected and processed collectively by the local environmental hygiene department. When there is hazardous waste produced, Putian Cable will engage qualified companies for further handling. By means of enhancing production process, Putian Cable utilises the raw materials to the greatest extent to reduce waste scrap produced. The Group also encourages its employees to reduce the usage of disposable and non-recyclable products in respect of waste reduction. During the Year, there was no hazardous waste produced by Putian Cable plants (2019: 0 tonne). The data of non-hazardous waste generated from Putian Cable plants is as follows:

Wastes	**2020**	2019
Total non-hazardous waste generated *(Note 1)* (tonnes)	**205**	224
Non-hazardous waste generated per square metre (tonnes/m^2)	**0.005**	0.005
Non-hazardous waste generated per reveune (kg/RMB'000)	**0.38**	0.29

Note:

1. The non-hazardous waste generated by the Putian Cable includes waste scrap and domestic waste only. The amount of waste scrap generated was based on the actual record of Putian Cable. The amount of domestic waste was based on the daily estimated volume of domestic waste in office, with reference to the "Research on Solutions to Domestic Solid Waste in Cities of China" issued by Beijing Environmental Sanitation Administration.

Putian Cable does not produce or discharge any industrial wastewater in the production process, while domestic sewage generated will be pretreated in the septic tank before discharging into the municipal sewage pipe network.

Resources Conservation

The Group endeavours to promote sustainable development by adopting numerous measures on reducing resources consumption, as well as raising the environmental awareness of employees and encouraging them to take part in environmental protection. During the Year, Putian Cable has organised training on resources conservation and low-carbon lifestyle for its employees, introducing the meaning of resources conservation and measures that employees can practice to protect the environment.

Putian Cable endeavours to improve energy management by reducing electricity consumption and using energy efficiently from different aspects. For electricity, employees are encouraged to switch off idle lighting system and other electronics, such as printers and computers, and take full advantage of sunlight whenever possible. Energy-efficient lighting and air conditioners are adopted, and lighting appliances and filters for air conditioners are cleansed regularly to improve energy efficiency. We also advocate to turn off air-conditioning system one hour earlier each day and set the minimum temperature to around 26 degrees Celsius. By means of regular checking and maintenance, the possibility of leakage of refrigerant has been reduced. The energy consumption of Putian Cable plants is as follows:

Energy Consumption	**2020**	2019
Total energy consumption (MWh)	**4,778**	6,326
Energy consumption per square metre (MWh/m^2)	**0.11**	0.15
Energy consumption per revenue (MWh/RMB'000)	**0.009**	0.008
Purchased electricity *(Note 1)* (MWh)	**4,647**	6,205
Gasoline *(Note 2)* (MWh)	**123**	113
Liquefied petroleum gas *(Note 3)* (MWh)	**8**	8

Notes:

1. Based on the actual energy consumption record of Putian Cable.

2. The consumption of gasoline from the use of vehicles was calculated with reference to the "Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

3. The consumption of liquefied petroleum gas from the use of stationary combustion sources was calculated based on the "Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)" issued by the National Development and Reform Commission of the PRC.

To raise the water saving awareness of employees, the Group has posted water saving notices in every lavatory and employees are reminded to turn off the faucet tight after use. The Group also conducts tests to put a stop to hidden leaking pipes and monitors water meters regularly to prevent leaking and wasting water. In addition, we generally do not provide bottled water for meetings and employees are not allowed to wash containers with mineral drinking water. During the Year, the Group did not face any issue in sourcing water. The water consumption of Putian Cable plants is as follows:

Water Consumption	**2020**	2019
Total water consumption *(Note 1)* (m^3)	**8,990**	9,714
Water consumption per square metre (m^3/m^2)	**0.21**	0.23
Water consumption per revenue (m^3/RMB'000)	**0.02**	0.01

Note:

1. Based on the actual water consumption record of Putian Cable.

Concerning the use of material, the Group conducts an evaluation on the usage of material to avoid overstock. During the Year, Putian Cable plants has used packaging materials including metal, wood, plastic, fibre fabric and paper, in which plastic and paper are used to pack products in both kilometres and pieces. Detailed usage of packaging materials is as follows:

Optical Fibre Cables and Communication Copper Cables *(Note 1)*:

	2020		2019	
Types of Package Material	Total Amount (kg)	Amount per Unit Produced (kg/km)	Total Amount (kg)	Amount per Unit Produced (kg/km)
Metal	444,000	0.6	744,000	0.9
Wood	39,000	0.1	62,000	0.1
Plastic	986,000	1.2	1,478,000	1.7
Fiber Fabric	70,000	0.1	114,000	0.1
Paper	593,000	1.5	826,000	1.9

Note:

1. Based on the actual package material record of Putian Cable.

Structured Cabling System Products *(Note 1)*:

	2020		2019	
Types of Package Material	Total Amount (kg)	Amount per Unit Produced (kg/piece)	Total Amount (kg)	Amount per Unit Produced (kg/piece)
Plastic	4,293,000	1.015	8,258,000	1.000
Paper	9,000	0.002	17,000	0.002

Note:

1. Based on the actual package material record of Putian Cable.

Green Operation

As a responsible corporate citizen, the Group attaches great importance to sustainability development and strives to promote green operation among its employees, in a bid to reduce greenhouse gas emissions from its business operation. For instance, in a bid to fortify the management of the use of office expenses and stationary, we purchase low-carbon and energy-efficient equipment. By posting reminders to advocate saving paper in office, the Group encourages employees to recycle and reuse paper, for example, using paper on both sides and using used paper to make records, as well as to utilise digital means for internal and external communication to replace paper circulation. The amount of paper used is also counted on a regular basis to monitor the usage. In addition, employees are encouraged to use refillable pens instead of disposable markers and ball pens. Conducting video conferences is suggested to substitute for non-essential overseas business trips, while direct flights are recommended for inevitable overseas business trips to reduce greenhouse gas emissions.

Climate Change

Climate change is rapidly emerging as one of the most significant issues across countries and is closely related to all businesses regardless of their nature. Being aware of the consequences brought by the changing climate, the Group has taken various measures to identify and mitigate climate-related risks. The Group regularly reviews global and local government policies and regulations regarding climate change to identify potential climate-related risks and opportunities that may have financial impacts on the Group's business.

During the Year, the Group has recognised physical risk brought by the increased severity of extreme weather events. It may lead to transportation difficulties and supply chain interruptions, thus decreasing production capacity. Extreme weather also has negative effects on the physical structure of the Group's facilities, thereby increasing maintenance cost, and employees' health and safety may be threatened. The Group may also face transition risks such as policy risks due to increasingly stringent policies and enhanced emissions-reporting obligations. Reputation risk may also occur with growing concerns of stakeholders such as the Group's responses to climate change, whether the goods and services provided are environmentally-friendly, etc.

To mitigate climate-related risks, the Group has put effort into different aspects. Putian Cable has formulated emergency plan for extreme weather conditions and natural disasters to ensure the safety of our employees and properties. Regular inspection of the factory structure and electric appliances will be carry out to eliminate any hidden dangers. Employees will receive training on the response and action when facing extreme weathers such as floods, typhoons and heavy rainstorms. Putian Cable will also issue early warnings based on information from local government and make sure employees are staying in a safe indoor environment. On top of the above, in order to better address stakeholders' concerns, the Group would communicate with and update our stakeholders regarding climate-related impacts and our climate change strategies in a timely manner.

VALUE OUR PEOPLE

The dedication and contributions of employees are essential to the long-term and sustainable development of the Group. We understand that well-established employment policies enable us to attract and retain talents. Apart from complying with the laws and regulations concerning employment, occupational safety and labour standards, including but not limited to the Labour Law of the PRC, Labour Contract Law of the PRC, Law of the PRC on the Prevention and Control of Occupational Diseases and Work Safety Law of the PRC, we strive to provide employees with a positive working environment and safeguard their well-being and health. During the Year, Putian Cable had presented Year-end awards as an acknowledgement for employees' contributions towards the Group.

Employees' Rights and Interests

The Group has established a defined human resources procedure to regulate and manage recruitment procedures, aiming to recruit appropriate talents in a fair manner with integrity. During the recruitment process, each job applicant is entitled to equal opportunity of the job offer, regardless of his/her age, gender, ethnicity, religious belief, marital status and disability, as long as his/her working experience, technical expertise and qualification are fulfilling the job requirements. Job applicant's identification documents are also required for age verification, so as to prevent misemploying child labour. Once such labour practices are discovered, the Group would investigate the cases thoroughly and dismiss related employees immediately. With a view to safeguarding employees' rights and interests, we enter into employment contracts with employees before they report duties, which clearly define the job duties and working location to avoid forced labour. Upon receipt of resignation from an employee, we will conduct an exit interview to understand his/her reason for resignation.

As at 31 December 2020, there were total 372 employees from Putian Cable (2019: 324) and the turnover rate[2] is 39%. Detailed numbers of employees and the corresponding turnover rate by different categories are as follows:

Indicators	Number of Employees 2020	2019	Turnover Rate (%) 2020
By Gender			
Female	122	101	42
Male	250	223	38
By Age Group			
Below 30 years old	76	95	61
Between 30 to 50 years old	249	191	36
Over 50 years old	47	38	23
By Employment Type			
Full-time	363	324	–
Part-time	9	0	–
By Geographical Region[3]			
The PRC	372	324	39

Employees are valuable assets of the Group, therefore we provide our employees with attractive benefits. We strive to ensure the working hours and remuneration of employees are compliant with the requirements of relevant laws and regulations, in which our employees are entitled to compensation upon required overtime working, as well as the rights of taking vacation leaves. Meanwhile, according to the requirements of the local government, we also make contributions to the Social Insurances and Housing Provident Fund for our employees. Based on internal and external reference standards, our remuneration structure is annually reviewed so as to maintain competitive remuneration offered to employees. We have also implemented annual appraisal system to evaluate the working performance of employees. Employees with outstanding performance may be rewarded with a pay rise or discretionary bonus in recognition of their contributions.

Training and Development

We have put great emphasis on providing trainings for employees in order to cater for the requirements of various positions. We have designed appropriate annual training programs for employees, including induction training for new employees, training courses related to production techniques, testing procedures and management skills, so as to enhance their technical and product knowledge as well as their understandings of quality standards in the industry and safety standards at the workplace. A clear career path is offered to our employees as well. Apart from the demands for positions, employees with an outstanding performance during annual appraisal may be given promotion opportunities, so that suitable talents will be recognised.

2 The Group starts to disclose the turnover rate in the Year.

3 The Group starts to disclose the number of employees by geographical region in the Year.

The average training hours per employee and percentage of trained employees of Putian Cable are as follows:

Indicators	2020 Average Training Hours per Employee (hours)	2020 Percentage of Trained Employees (%)	2019 Average Training Hours per Employee (hours)	2019 Percentage of Trained Employees (%)
By Employee Category				
Senior	37	78	58	100
Intermediate	47	78	63	100
Junior	28	58	53	100
By Gender				
Female	29	58	55	100
Male	31	62	54	100

Health and Safety

Work safety and personal safety of employees always come first during the business operation of the Group. We have continued to implement safety guidelines and organised educational activities for promoting the prevention of occupational diseases on a regular basis, such as reminding employees to keep the workplace clean at all time and explaining the laws and regulations in respect of occupational diseases and preventive measures to strengthen employees' safety awareness. Employees shall strictly comply with the working and operational procedures, and the laws and regulations in respect of occupational health and safety, so as to prevent accidents and occupational diseases consciously.

Putian Cable has obtained the certificate of GB/T28001-2011/OHSAS18001:2007 Occupational Health and Safety Management System Certification for its sound occupational health and safety management system. Putian Cable provides safety trainings which comprise of training about safety techniques and education on safety knowledge and awareness for employees, especially those may be exposed to occupational hazards. Prior to work, employees at such positions are required to undergo occupational diseases examination to ensure their health condition, while those at particular positions have to attend the operation safety assessment and acquire qualified licenses. Putian Cable carries out regular, surprise and special safety checks within the plants to discover any safety issue and take corrective actions accordingly for the prevention of incidents.

Moreover, hazardous chemicals are stored separately with clear labels, while personal protective equipment is provided to employees according to the needs of various positions. Designated personnel are assigned to monitor and ensure that employees wear appropriate personal protective equipment. Also, Putian Cable conducts regular checks on the performance and effectiveness of occupational diseases protective equipment and personal protective equipment to make sure proper function, as well as identifies the occupational hazards in workplace annually, so as to create a healthy and safe working environment for its employees. During the Year, there was no lost days due to work-related injury in Putian Cable and the number and rate of work-related fatalities occurred in each of the past three years including the Year are as follows:

Indicators	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2018
Number of work-related fatalities	0	0	0
Rate of work-related fatalities (%)	0	0	0

Response to Coronavirus Disease 2019

In light of the outbreak of Coronavirus Disease 2019 ("**COVID-19**") worldwide, Putian Cable has strictly abided to relevant preventive regulations carried out by the regional government, and implemented various control and preventive measures to ensure the health and well-being of employees. For example, we strengthened sanitisation and cleaning throughout the office, as well as kept the office ventilated and maintained employees' social distance. Employees and visitors at Putian Cable premises were required to wear face masks as well as to take body temperature measurement before entering the premises. In addition, we provided the guideline for the prevention of COVID-19 so as to improve employees' awareness. During the Year, no COVID-19 cases were reported in Putian Cable.

OPERATING PRACTICES

The tenet of the Group is to provide products and services of high quality in meeting customers' expectations. On top of complying with relevant laws and regulations concerning product quality and safety, advertising, labelling and privacy, including but not limited to the Product Quality Law of the PRC, Copyright Law of the PRC, Patent Law of the PRC and Advertising Law of the PRC, we strictly manage supply chain and monitor the quality of raw materials and products. Besides, we have taken measures to protect intellectual property rights and customer's privacy to safeguard their rights and interests.

Supplier Management

To secure a stable supply of goods, the Group has maintained positive business relationship with suppliers. To this end, Putian Cable continue to execute our supplier management system for the selection and evaluation of suppliers. The procurement department is responsible for the selection of suppliers of raw materials, production equipment and fixed assets, while the administration department is responsible for the selection of other suppliers such as office supplies and daily necessities. Several factors are taken into account when selecting suppliers, including product quality, production capacity, delivery time and reputation in the market. Only qualified suppliers satisfying our requirements will be admitted into the list of qualified suppliers. We will then enter into contracts with suppliers, indicating the requirements regarding quality, logistics packaging and storage. Qualified suppliers are required to pass the annual assessments, which include reviewing their performances during the past year, and any suppliers with sub-standard performance will be removed from the list, thereby reducing the potential impacts of the supply chain on our products and services. During the Year, the number of suppliers of Putian Cable by geographical region are as follows:

Geographical Regions[4]	Number of Suppliers
Southern China	32
Eastern China	111
Central China	41
Northern China	4
Total	**188**

Moreover, the Group is conscious of practicing green procurement. The procurement department of Putian Cable determines the demand of raw materials according to the monthly production and sales plan, and adjusts according to the inventory and in-transit quantities so as to avoid overstock which may lead to wastage. We also consider suppliers with minimum order quantity and minimum use of packaging. The Group also upholds an ethical procurement policy and is committed to sourcing raw materials from suppliers that value social responsibility. In addition, the environmental, health and safety performance of suppliers are factors that the Group will consider when selecting suppliers. We also give priority to suppliers with ISO quality or environmental management system certification.

[4] Putian Cable starts to disclose the number of suppliers by geographical region in the Year.

Quality Assurance

Rigorous quality control system of products is vital for offering products and services of high quality. To ensure the quality of the entire process from procurement, production, product inspection to after-sale customer services, we adhere to our quality control system which analyses the factors that affecting our product quality, production efficiency and raw material utilisation rates, thereby reducing any issues that may affect the product quality. Putian Cable has obtained the certificate for GB/T19001-2016/ISO9001:2015 Quality Management System.

Our quality control personnel conduct quality inspection on each batch of raw materials upon receipt. Only raw materials passed our tests are admitted into inventory, while defective items will be returned to the suppliers or be replaced. During the production process, we strictly follow the requirements of ISO9001:2015 standards for product quality control. Work-in-progress is tested after each production process, among which only those passing quality control tests are allowed to proceed to the next production stage. To ensure the quality and reliability of our products, finished products are tested in terms of structure as well as electrical and mechanical performances to ensure that the quality of products meets the requirements of customers. All work-in-progress and finished products are labeled for future traceability. In addition, we have specific packing and delivery instructions in place for each category of product to ensure the safety and quality of products during transportation. Upon the delivery of products, we will conduct on-site product inspection together with customers. In case of any unqualified products, reasons would be tracked and identified via labeling and production record keeping system. If the unqualified products are identified with quality issues, they will be reworked where possible and those unable to be processed will be treated as waste.

Customer Oriented

Catering for the needs of customers, extensive after-sales services are provided to customers, including technical training and exchange session, question and answer session respecting products, and regular communication. We typically offer a maintenance period of one to three years. Our employees are responsible for responding to our customers and conducting on-site examination upon receipt of any customer service request relating to the quality of products. Meanwhile, employees coordinate with technical team to diagnose and resolve the relevant technical issues. Our customer service team would respond to customer inquiries and service requests in a timely manner through various channels. Customer complaints are referred to relevant departments for handling, and customer service team would handle relevant complaints closely until they are resolved. We appreciate that customers' comments are beneficial to our improvements, for which we also conduct annual customer surveys to collect feedback on products and services and better understand the changing needs of customers. Furthermore, all public production sales and market information shall be reviewed to make sure that there is no false or misleading information that may cause any misunderstanding of our customers. During the Year, Putian Cable did not receive any complaints related to our products and service quality.

Respect for Intellectual Property Rights and Privacy

The Group highly values the research and development and enhances the product design with reference to the developing trend of domestic and foreign technology and the market. During the Year, Putian Cable was awarded as the "Smart City" Extraordinary Supplier of Innovative Technology and Solutions (「智慧城市」優秀創新技術及解決方案提供商) by the China Security and Protection Industry Association. We also understand the importance of protecting and enforcing our intellectual property rights. During the Year, 5 new patents in the PRC in terms of technologies relating to cable manufacturing, processing and air-sealing devices were authorised. Being respectful for others' intellectual property rights, we strictly abide by the laws and regulations relating to intellectual property rights including but not limited to the Trademark Law of the PRC, the Patent Law of the PRC and the Copyright Law of the PRC, and conduct promotion and training for our employees on intellectual property rights. To safeguard our intellectual property rights, we require our employees to keep confidential for all information relating to our transactions, operation, management, technology and skills, etc. during their employment and within two years after resignation. In addition, prior approval shall be obtained from us before other party intends to use our trademark, so as to avoid any infringement of the exclusive right of our trademarks.

Meanwhile, we place high value on our customers' privacy and thereby established a confidentiality system. Our employees shall sign up confidentiality agreements before their employment to undertake that they will not disclose any customers' information to any third party. To safeguard the information security and protect the customers' privacy and data, our employees are required to use the designated anti-virus software and shall not use any unauthorised software or hardware or bring any company's information away from their workplace. Employees shall encrypt the files that contain sensitive information of the Group as well for better data protection.

Anti-Corruption

To uphold our business integrity and providing quality service, the Group is dedicated to training our employees with a working attitude of acting by law including but not limited to the Criminal Law of the PRC and being honest and trustworthy. Besides, we continue to follow the internal mechanism of preventing commercial bribery, for which, our core personnel and those individuals and units that have business relationships with us shall sign up an agreement to avert commercial bribery and corruption in any kinds and to regulate the behaviours of the parties, aiming to uphold the integrity and be self-disciplined. The Group has designated a department to be in charge of the supervision and management of the commitment mechanism in accordance with relevant laws and regulations concerning bribery, thereby strictly prohibiting bribery and corruption from its source. Through conducting investigations and researches, we identify the characteristics of the misconduct of trading and commercial bribery, enabling us to adopt corresponding strategies and measures to deal with the potential risks arising from operation on a timely basis. Whistleblowing mailbox and hotline are set up for employees in reporting relevant commercial bribery and the identity of the whistle blower will be kept confidential.

At the same time, our employees should obey our requirements regarding conflict of interests and declare their possible conflict of interests, while being prohibited to solicit money or personal benefits by abusing their powers or convenience from their work, such as receiving gifts, money, loans, services or any compensation from units or individuals seeking to establish business relationship with us. In case of identifying any conducts or occurrences that may violate the requirements, employees are encouraged to report the event to his/her supervisor or via our established hotline or mailbox. During the Year, Putian Cable had no concluded legal cases regarding corrupt practices and has provided anti-corruption related training twice a year to employees of senior management and procurement department, so as to enhance their awareness on the prohibition of commercial bribery and remind them the business ethnics and responsibility.

COMMUNITY INVOLVEMENT

The Group keeps on encouraging its employees to actively participate in social and charitable activities in the community, and provides disabilities with job opportunities so as to offer assistance to the vulnerable group.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PUTIAN COMMUNICATION GROUP LIMITED
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Putian Communication Group Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 56 to 106, which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

Refer to summary of significant accounting policies in note 4.7 and disclosure of revenue in note 7 to the consolidated financial statements.

The Group is principally engaged in the communication copper cables, optical fiber cables and structured cabling system products business.

Revenue represents income from production and sales of communication copper cables, optical fiber cables and structured cabling system products sourced from Mainland China.

The Group enters into sale and purchase agreements with the telecommunications network operators and non-operators and in accordance with the terms of the agreements, revenue is recognised at the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods to the telecommunications network operators and non-operators.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the recognition of revenue by management to meet specific targets or expectations.

OUR RESPONSE

Our procedures in relation to assess the recognition of revenue included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;
- Inspecting sale and purchase agreements, on a sample basis, to understand the terms of delivery and assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;
- Comparing sales records for a sample of sales transactions recorded during the year with relevant underlying documentation, which included sales invoices and good delivery notes with evidence of the customers' receipt of the goods and the date of receipt of the goods by the customers;
- Obtaining confirmations, on a sample basis, from major customers of the Group of sales transactions during the year end, for unreturned confirmations, performing alternative procedures by comparing details of the transactions with relevant underlying documentation;
- Comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements and good delivery notes to determine whether the related revenue had been recognised in the appropriate financial period;
- Scrutinising all journals affecting revenue raised during the reporting period and comparing details of a sample of these journal, which met certain risk-based criteria, with relevant underlying documentation.

IMPAIRMENT ASSESSMENT OF TRADE AND BILLS RECEIVABLES

Refer to summary of significant accounting policies in note 4.5, critical accounting estimates and judgements in note 5(ii) and disclosure of trade and bills receivables in note 18 to the consolidated financial statements.

As at 31 December 2020, the Group had net trade and bills receivables amounting to approximately RMB250,430,000, after making loss allowance of approximately RMB7,968,000. It represented approximately 29.9% of the total assets of the Group and is considered quantitatively significant to the Group.

The Group's loss allowance is measured at an amount equal to lifetime expected credit loss ("**ECL**") based on management's estimated loss rates for each category of trade and bills receivables. The estimated loss rates take into account the aging of the trade and bills receivables, overdue balances, information regarding the ability and intent of the debtor to pay historical data on default rates.

We have identified impairment assessment of trade and bills receivables as a key audit matter due to considerable amount of judgement and estimates being required in conducting impairment assessment as mentioned in the forgoing paragraph.

OUR RESPONSE

Our procedures in relation to management's impairment assessment on trade and bills receivables included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECL;
- assessing the trade and bills receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- comparing cash receipts from debtors subsequent to the financial year end relating to trade and bills receivable balances as at 31 December 2020 with relevant underlying documentation on a sample basis; and
- obtaining an understanding of the basis of management's approach to measuring ECLs of trade and bills receivable balances and assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rate are appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Wan Che Bun

Practicing Certificate no. P05804

Hong Kong, 31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	**544,059**	768,322
Cost of sales		**(422,502)**	(583,907)
Gross profit		**121,557**	184,415
Other income	8	**1,435**	715
Selling and distribution expenses		**(34,516)**	(42,773)
Administrative expenses		**(41,377)**	(49,110)
Expected credit losses on financial assets		**(3,918)**	(1,640)
Finance costs	9	**(2,939)**	(7,909)
Profit before income tax expense	10	**40,242**	83,698
Income tax expense	11	**(7,950)**	(16,946)
Profit for the year		**32,292**	66,752
Profit for the year attributable to the owners of the Company		**32,292**	66,752
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(834)**	(2,945)
Other comprehensive income for the year, net of tax		**(834)**	(2,945)
Profit and total comprehensive income for the year		**31,458**	63,807
Earnings per share	13		
Basic and diluted		**RMB0.029**	RMB0.061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	360,990	244,886
Prepayment for property, plant and equipment and intangible assets		17,820	69,339
Total non-current assets		378,810	314,225
Current assets			
Inventories	17	66,728	65,588
Trade and bills receivables	18	250,430	264,626
Deposits, prepayment and other receivables		68,970	61,167
Restricted cash	19	30,000	22,476
Cash and cash equivalents	20	43,025	74,440
Total current assets		459,153	488,297
Total assets		837,963	802,522
Current liabilities			
Trade and bills payables	21	58,633	71,964
Contract liabilities	22	6,625	4,525
Lease liabilities	27	922	584
Accruals, deposits received and other payables		41,300	17,864
Current tax liabilities		3,649	3,168
Bank and other borrowings	23	126,200	170,107
Total current liabilities		237,329	268,212
Net current assets		221,824	220,085
Total assets less current liabilities		600,634	534,310
Non-current liabilities			
Bank and other borrowings	23	86,232	53,500
Lease liabilities	27	501	144
Deferred tax liability	24	13,660	11,883
Total non-current liabilities		100,393	65,527
Total liabilities		337,722	333,739
NET ASSETS		500,241	468,783

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
EQUITY			
Share capital	25	**9,361**	9,361
Reserves	26	**490,880**	459,422
TOTAL EQUITY		**500,241**	468,783

The notes on pages 61 to 106 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 56 to 106 were approved by the Board of Directors on 31 March 2021 and were signed on its behalf:

Wang Qiu Ping
Chairlady

Zhao Xiao Bao
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2020

	Attributable to owners of the company							
	Share capital	Share premium*	Capital reserves*	Other reserves*	PRC statutory reserve*	Exchange reserve*	Retained profits*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)		
Balance as at 1 January 2019	9,361	130,289	190	3,028	31,248	(4,070)	234,930	404,976
Profit for the year	–	–	–	–	–	–	66,752	66,752
Exchange differences arising on transaction of foreign operations	–	–	–	–	–	(2,945)	–	(2,945)
Total profit and other comprehensive income for the year	–	–	–	–	–	(2,945)	66,752	63,807
Appropriation to statutory reserves	–	–	–	–	13,763	–	(13,763)	–
Balance as at 31 December 2019	9,361	130,289	190	3,028	45,011	(7,015)	287,919	468,783
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**32,292**	**32,292**
Exchange differences arising on transaction of foreign operations	**–**	**–**	**–**	**–**	**–**	**(834)**	**–**	**(834)**
Total profit and other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(834)**	**32,292**	**31,458**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**5,690**	**–**	**(5,690)**	**–**
Balance as at 31 December 2020	**9,361**	**130,289**	**190**	**3,028**	**50,701**	**(7,849)**	**314,521**	**500,241**

* The total of these accounts as at the reporting dates represents "Reserves" in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Profit before income tax expense	40,242	83,698
Adjustments for:		
Depreciation of property, plant and equipment	19,908	16,578
Interest income	(512)	(296)
Finance costs	2,939	7,909
Expected credit losses on financial assets	3,918	1,640
Provision for impairment loss on inventories	619	–
Loss on disposal on property, plant and equipment	–	4
Operating profit before working capital changes	67,114	109,533
Decrease/(increase) in trade and bills receivables	10,278	(36,556)
Increase in deposits, prepayments and other receivables	(7,803)	(27,019)
(Increase)/decrease in inventories	(1,759)	5,019
(Decrease)/increase in trade and bills payables	(13,331)	3,249
Increase in accruals, deposits received and other payables	4,347	2,700
Increase in contract liabilities	2,100	764
Cash generated from operations	60,946	57,690
Income taxes paid	(5,692)	(14,871)
Net cash generated from operating activities	55,254	42,819
Cash flows from investing activities		
Purchase of property, plant and equipment	(49,136)	(128,642)
Prepayments for property, plant and equipment	(14,424)	(9,082)
Interest received	512	296
Net cash used in investing activities	(63,048)	(137,428)
Cash flows from financing activities		
Proceeds from borrowings	158,932	148,804
Repayment of borrowings	(170,107)	(49,509)
Restricted cash pledged	(30,000)	(6,310)
Restricted cash released	22,476	–
Decrease in amount due to a director	–	(1,746)
Interest paid	(2,939)	(7,909)
Payment of lease liabilities	(1,149)	(537)
Net cash (used in)/generated from financing activities	(22,787)	82,793
Net decrease in cash and cash equivalents	(30,581)	(11,816)
Cash and cash equivalents at the beginning of the year	74,440	89,201
Effect of exchange rate changes on cash and cash equivalents	(834)	(2,945)
Cash and cash equivalents at the end of the year	43,025	74,440

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 2020 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 2021.

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

2.1 Adoption of new or amended HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform
- Amendment to HKFRS 16, COVID-19 Related Rent Concessions

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period.

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

2.2 New standards, interpretations and amendments 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 HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 16, Proceeds before Intended Use[2]
Amendments to HKAS 37, Onerous Contracts - Cost of Fulfilling a Contract[2]
HKFRS 17 - Insurance Contracts[4]
Amendments to HKFRS 3, Reference to the Conceptual Framework[3]
Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2[1]
Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023.

5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. According to the preliminary assessment made by the Group, no significant impact on the financial performance and position of the Group is expected when they become effective.

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. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("**the Group**"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.3 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes as described below, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight-line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings and structures	5 - 20 years
Machinery	5 - 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 - 5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.4 Leasing

The Group as a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist 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 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.

(i) Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

(ii) Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are 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 uses 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.4 Leasing *(Continued)*

The Group as a lessee (Continued)

(ii) Lease liability (Continued)

Subsequent to the commencement date, the Group measures 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.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

4.5 Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Financial Instruments *(Continued)*

(i) Financial assets (Continued)

Debt instruments (Continued)

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("**FVTPL**"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade and bills receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Financial Instruments *(Continued)*

(ii) Impairment loss on financial assets (Continued)

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Financial Instruments *(Continued)*

(iii) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Financial Instruments *(Continued)*

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4.5(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4.6 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.7 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes. Revenue is recognised when performance obligation is satisfied.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Optical fiber cables, communication copper cables and structured cabling system products

Customers obtain control of the optical fiber cables, communication copper cables and structured cabling system products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the optical fiber cables, communication copper cables and structured cabling system products. There is generally only one performance obligation. Invoices are usually payable within 180-360 days.

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. Based on historical data, the Group does not recognise the provision of contract consideration for this warranty.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.7 Revenue recognition *(Continued)*

Contract liabilities

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4.8 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 -Investment Property. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.8 Income taxes *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches and associates and interests in joint arrangements except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.9 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

The functional currencies of the Company and certain subsidiaries are currencies other than the RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each reporting period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.10 Employee benefits

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiary of the Company 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 local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

4.11 Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model;
- prepayment on property, plant and equipment; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a depreciated cost under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4.12 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.13 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.14 Research and developments costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

4.15 Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (i) that person's children and spouse or domestic partner; (ii) children of that person's spouse or domestic partner; and (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

(i) Depreciation

The Group depreciates the property, plant and equipment in accordance with the accounting policies stated in notes 4.3 respectively. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of each reporting period.

(ii) Impairment of trade, bills and other receivables

The impairment of trade, bills and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and impairment losses in the periods in which such estimate has been changed.

(iii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset of cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group reportable segments are managed separately as each business offers different and requires different business strategies.

The Group divided the cable products into three main categories: (a) Communication copper cables; (b) Optical fiber cables; (c) Structured cabling system products:

(a) Communication copper cables

Communication copper cable is a general term which those electric cables which are mainly made by copper as the main conductive body of the cables. These cables are used widely; it can be used in transmission and distribution of electric energy, which normally used in the city's underground electric network, power station as an extraction line, also can be found in the industrial and mining enterprises for the internal power supply and over the river or sea of underwater transmission lines; or it can also be used as the network cabling for residential and commercial buildings.

(b) Optical fiber cables

Optical fiber cable is a similar product with copper cable, but it is an enhanced version. The optical fiber cables are also used in telecommunications, network operators, ratio network and etc, but the useful life, safety conditions, speed and stability of transmission of optical fiber cables are much better than copper cables. Also the weight and size are much smaller than copper cables too, hence optical fiber cable is the new trend as a replacement of copper cable. However, copper cables is still widely use in connecting the personal computer and other electronic devices, hence copper cables although is been replaced by optical fiber cables, but in fact it can't be 100% replaced and will continuously attribute in the cable markets in the future.

(c) Structured cabling system products

Since the Group operated in the electric cable wires business, and they found the demand of structured cabling system products is increasing in each year in the PRC market. Nowadays, more commercial buildings and residential units are built in modern style, hence the requirement of interior electronic applicable products is also boost up and towards a more 'intelligent' way. As a result, the structured cabling system products sales increased significantly, especially in those better developed cities, such as Beijing, Shanghai and etc.

6. SEGMENT REPORTING *(CONTINUED)*

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

(i) Business Segments

	Year ended 31 December 2020			
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	Total RMB'000
Reportable segment revenue	**124,567**	**268,893**	**150,599**	**544,059**
Reportable segment profit	**6,250**	**23,716**	**41,354**	**71,320**

	Year ended 31 December 2019			
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	Total RMB'000
Reportable segment revenue	241,870	309,308	217,144	768,322
Reportable segment profit	20,941	38,776	58,501	118,218

(ii) Reconciliation of profit or loss

	2020 RMB'000	2019 RMB'000
Segment results	**71,320**	118,218
Other income	**1,435**	715
Unallocated expenses	**(29,574)**	(27,326)
Finance costs	**(2,939)**	(7,909)
	40,242	83,698
Income tax expense	**(7,950)**	(16,946)
Profit after taxation	**32,292**	66,752

(iii) Geographic information

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

6. SEGMENT REPORTING *(CONTINUED)*

(iv) Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A	149,620	270,956
Customer B	111,681	181,817

7. REVENUE

The principal activities of the Group are the manufacturing and sale of optical fiber cables, communication copper cables and structured cabling system products. Further details regarding the group's principal activities are disclosed in note 6.

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

	2020 RMB'000	2019 RMB'000
Optical fiber cables	124,567	241,870
Communication copper cables	268,893	309,308
Structured cabling system products	150,599	217,144
	544,059	768,322
Geographical markets:		
Mainland China	544,059	768,322
Timing of revenue recognition		
Goods transferred at a point in time	544,059	768,322

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

	2020 RMB'000	2019 RMB'000
Trade and bills receivables	250,430	264,626
Contract liabilities (Note 22)	6,625	4,525

8. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Other income:		
Bank interest income	512	296
Government grant (Note)	590	–
Others	333	419
	1,435	715

Note: There were no unfulfilled conditions and other contingencies attaching to government subsidies that had been recognised.

9. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest charge on bank and other borrowings	16,027	15,788
Interest lease liabilities	68	62
Less: Amount capitalised (Note)	(13,156)	(7,941)
	2,939	7,909

Note: Borrowing costs capitalised during the year then ended arose on the general borrowing pool are calculated by applying a capitalisation rate of 5.41% (2019: n/a) for the year ended 31 December 2020 to expenditure on qualifying assets.

10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2020 RMB'000	2019 RMB'000
Auditors' remuneration	1,080	1,080
Cost of inventories recognised as expenses	422,502	583,907
Transportation expense	12,807	16,308
Research and development expenditure	15,721	23,424
Depreciation of property, plant and equipment	19,908	16,578
Expected credit losses on financial assets	3,918	1,640
Interest on lease liabilities	68	62
Short-term leases expenses	1,503	1,597
Staff costs (including directors' emoluments – Note 14):		
– Salaries and wages	36,418	41,792
– Defined contribution scheme (Note i)	1,850	6,110
	38,268	47,902

Note:

i. 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.

11. INCOME TAX EXPENSE

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

	2020 RMB'000	2019 RMB'000
Current tax – Hong Kong Profits Tax		
Tax for the current year	–	–
Current tax – PRC EIT		
Tax for the current year	6,173	14,196
Deferred tax (Note 24)		
Charge to profit or loss for the year	1,777	2,750
	7,950	16,946

11. INCOME TAX EXPENSE *(CONTINUED)*

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 2020 (2019: 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 2020 and 2019, 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:

	2020 **RMB'000**	2019 RMB'000
Profit before income tax expense	**40,242**	83,698
Tax calculated at the applicable tax rate of 25% (2019: 25%)	**10,061**	20,925
Effect of different tax rates	**(5,194)**	(10,391)
Tax effect of expenses not deductible for tax purposes	**339**	200
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,717)**	(1,757)
Deferred tax on undistributed earnings of PRC subsidiaries	**1,719**	3,111
Effect of tax losses not recognised	**2,742**	4,858
Income tax expense	**7,950**	16,946

12. DIVIDENDS

No dividend was paid or proposed during the year of 2020, nor has any dividend been proposed since the end of reporting period (2019: RMB Nil).

There are no income tax consequences related the payment of dividends by the company to its shareholders.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB32,292,000 (2019: approximately RMB66,752,000) and the weighted average of 1,100,000,000 shares (2019: 1,100,000,000 shares) in issue during the year, calculated as follows:

	2020 RMB	2019 RMB
Earnings per share		
Basic earnings per share	0.029	0.061
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 2020 and 2019 and, therefore, diluted earnings per share are the same as the basic earnings per share.

14. DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2020					
Chairlady					
Wang Qiu Ping	702	436	231	46	1,415
Executive directors					
Zhao Xiao Bao	702	436	231	46	1,415
Zhao Moge	576	181	156	13	926
Non-executive director					
Ms. Jiang Xuefeng (Note ii)	–	–	–	–	–
Independent non-executive directors					
Cheng Shing Yan	120	–	–	–	120
Liu Guodong	120	–	–	–	120
Xie Haidong	120	–	–	–	120
	2,340	1,053	618	105	4,116

14. DIRECTORS' EMOLUMENTS *(CONTINUED)*

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2019					
Chairlady					
Wang Qiu Ping	702	433	621	80	1,836
Executive directors					
Zhao Xiao Bao	702	433	621	79	1,835
Zhao Moge	606	151	234	30	1,021
Non-executive director					
Ms. Jiang Xuefeng (Note i)	–	–	–	–	–
Independent non-executive directors					
Cheng Shing Yan	120	–	–	–	120
Liu Guodong	120	–	–	–	120
Xie Haidong	120	–	–	–	120
	2,370	1,017	1,476	189	5,052

Notes:

(i) Ms. Jiang Xuefeng appointed as a non-executive Director on 5 November 2019.

(ii) Ms. Jiang Xuefeng resigned as a non-executive Director on 31 July 2020.

(iii) The discretionary bonus was determined on a discretionary basis with reference to the individual's performance.

(iv) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2020 (2019: Nil). No directors waived or agreed to waive any emoluments during the year ended 31 December 2020 (2019: Nil).

15. THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2019: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining two (2019: two) individuals were as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	1,353	1,260
Discretionary bonuses	176	306
Defined contribution scheme	26	40
	1,555	1,606

The number of the highest paid non-directors fell within the following emolument band:

	2020 Number of individuals	2019 Number of individuals
HKD1,000,001 to HKD1,500,000	1	1
Nil to HKD1,000,000	1	1

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
COST						
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**
Additions	**90,837**	**8,038**	**28,442**	**2**	**8,693**	**136,012**
Disposals	**–**	**(1,411)**	**–**	**–**	**–**	**(1,411)**
As at 31 December 2020	**217,197**	**90,832**	**135,337**	**2,272**	**19,929**	**465,567**
ACCUMULATED DEPRECIATION						
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
Disposals	–	–	–	(60)	–	(60)
As at 31 December 2019	**–**	**22,208**	**55,472**	**1,934**	**6,466**	**86,080**
Depreciation	**–**	**5,864**	**9,725**	**115**	**4,204**	**19,908**
Disposals	**–**	**(1,411)**	**–**	**–**	**–**	**(1,411)**
As at 31 December 2020	**–**	**26,661**	**65,197**	**2,049**	**10,670**	**104,577**
NET BOOK VALUE						
As at 31 December 2020	**217,197**	**64,171**	**70,140**	**223**	**9,259**	**360,990**
As at 31 December 2019	126,360	61,997	51,423	336	4,770	244,886

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 2020 and 2019, land and buildings with carrying amounts of RMB62,725,000 and RMB61,331,000, respectively were pledged as collateral for Group's bank and other borrowings(Note 23).

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Land and buildings RMB'000
Right-of-Use Assets	
At 1 January 2019	12,999
Additions	314
Depreciation	(948)
At 31 December 2019 and 1 January 2020	12,365
Additions	2,037
Depreciation	(1,546)
At 31 December 2020	12,856

17. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**26,415**	19,402
Finished goods	**40,313**	46,186
	66,728	65,588

18. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**253,972**	266,784
Bills receivables (Note)	**4,426**	1,892
	258,398	268,676
Less: Loss allowance	**(7,968)**	(4,050)
	250,430	264,626

Note: Bills receivables represented outstanding commercial acceptance bills.

18. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

	2020	2019
	RMB'000	RMB'000
Within 1 month	**93,840**	90,273
More than 1 month but within 2 months	**64,120**	75,971
More than 2 months but within 3 months	**47,459**	52,490
More than 3 months but within 6 months	**36,842**	39,220
More than 6 months but within 1 year	**7,659**	6,369
More than 1 year	**510**	303
	250,430	264,626

The Group recognised expected credit losses based on the accounting policy stated in note 4.5(ii).

The credit term granted by the Group to its trade customers is normally 180 days to 360 days. Further details on the Group's credit policy are set out in note 35(b).

19. RESTRICTED CASH

Bank deposits have been pledged as security for bank borrowings (Note 23) and bills payables (Note 21). The restricted cash will be released upon the settlement of relevant bank borrowings.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balance with banks. RMB is not freely convertible to other currencies as such amounts were held by the subsidiaries located in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

21. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	**42,517**	52,928
Bills payables	**16,116**	19,036
	58,633	71,964

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 90 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:

	2020 RMB'000	2019 RMB'000
Within 1 month	**21,918**	43,497
More than 1 month but within 2 months	**15,098**	9,311
More than 2 months but within 3 months	**6,419**	5,700
More than 3 months but within 6 months	**13,127**	6,648
More than 6 months but within 1 year	**869**	6,262
More than 1 year	**1,202**	546
	58,633	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 Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

22. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Contract liabilities arising from:		
Sale of goods	6,625	4,525
	6,625	4,525

	2020 RMB'000	2019 RMB'000
Balance as at 1 January	4,525	3,761
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year (Note 7)	(4,525)	(3,761)
Increase in contract liabilities as a result of billing in advance of sales of goods(Note 7)	6,625	4,525
Balance at 31 December	6,625	4,525

23. BANK AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank borrowings:		
– Secured (ii), (iii) & (iv)	150,500	120,000
– Unsecured (iii) & (iv)	19,000	10,000
	169,500	130,000
Other borrowing:		
– Secured (iii)	15,232	93,607
– Unsecured (iii)	27,700	–
	42,932	93,607
	212,432	223,607

23. BANK AND OTHER BORROWINGS *(CONTINUED)*

	2020 RMB'000	2019 RMB'000
On demand or within one year	**126,200**	170,107
Between one to two years	**27,658**	3,080
Between two to five years	**58,574**	50,420
	212,432	223,607

Notes:

(i) The bank borrowings with effective interest rate is 5.41% (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:

	2020 RMB'000	2019 RMB'000
Land and buildings (Note 16)	**62,725**	61,331
Bank deposit (Note 19)	**30,000**	10,000
	92,725	71,331

(iii) As at 31 December 2020 and 2019, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank and other borrowings.

(iv) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2020 and 2019 set out below:

	2020 RMB'000	2019 RMB'000
Amounts granted	**169,500**	130,000
Amounts utilised	**169,500**	130,000

24. DEFERRED TAX LIABILITY

	Allowance for doubtful debts RMB'000	Withholding tax on undistributed earnings RMB'000	Tax losses RMB'000	Capitalised costs RMB'000	Total RMB'000
As at 1 January 2019	(308)	9,441	–	–	9,133
Charge for the year (Note 11)	(361)	3,111	–	–	2,750
As at 31 December 2019 and 1 January 2020	**(669)**	**12,552**	**–**	**–**	**11,883**
Charge for the year (Note 11)	**58**	**1,719**	**(5,274)**	**5,274**	**1,777**
As at 31 December 2020	**(611)**	**14,271**	**(5,274)**	**5,274**	**13,660**

As at 31 December 2020, the Group had unused tax losses of approximately RMB25,533,000 (2019: approximately RMB23,099,000), available to offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

25. SHARE CAPITAL

	2020		2019	
	Number '000	**Amount RMB'000**	Number '000	Amount RMB'000
Authorised:				
As at 1 January and 31 December	**3,000,000**	**25,534**	3,000,000	25,534
Issued and fully paid:				
As at 1 January and 31 December	**1,100,000**	**9,361**	1,100,000	9,361

As at 31 December 2020 and 2019, the authorised share capital of the Company comprises 3,000,000,000 ordinary shares with par value of HKD0.01 per share.

26. RESERVES

Share premium

The share premium is the excess of the proceeds received over the par value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

Capital reserves

Capital reserves represented the excess net assets of RMB30,000 from Putian Cable, which was the capital surplus raised from the capital injection of USD185,000, on 2 November 2001. Also, the excess net assets of RMB160,000 from Jiangxi Optical, which transferred from the PRC statutory reserves when Jiangxi Optical transformed from Limited Company to Stock Corporation as at the date of transformation, 30 September 2013.

Other reserves

The amount arose from the acquisition of equity interest in the Putian Cable by Jiangxi Tianyuan during the group reorganisation.

PRC statutory reserve

In accordance with the relevant laws and regulations of the PRC, the PRC subsidiary is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or to increase capital.

Exchange reserve

The translation reserve comprises the exchange differences arising on the translation of the financial statements of foreign operations.

27. LEASES

Nature of leasing activities (in the capacity as lessee)

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

Right-of-use assets

	31 December 2020 RMB'000	31 December 2019 RMB'000
Ownership interests in prepaid land, carried at fair value with remaining lease term of:		
Between 10 and 50 years	**11,410**	11,699
Other properties leased for own use, carried at depreciated cost	**1,446**	666

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

	Land and buildings RMB'000
At 1 January 2019	951
Addition	314
Interest expense	62
Lease payments	(599)
At 31 December 2019 and 1 January 2020	728
Addition	1,844
Interest expense	68
Lease payments	(1,217)
At 31 December 2020	1,423

27. LEASES *(CONTINUED)*

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	31 December 2020		31 December 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	922	979	584	608
After 1 year but within 2 years	501	511	130	133
After 2 years but within 5 years	–	–	14	19
After 5 years	–	–	–	–
	501	511	144	152
	1,423	1,490	728	760
Less: total future interest expenses		(67)		(32)
Present value of lease liabilities		1,423		728

Note:

The present value of future lease payments are analysed as:

	2020 RMB'000	2019 RMB'000
Current liabilities	922	584
Non-current liabilities	501	144
	1,423	728

	2020 RMB'000	2019 RMB'000
Short-term lease expense	1,503	1,597

28. RELATED PARTY TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in note 14 and 15 respectively.

Except as disclosed above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

29. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		66	66
Fixtures and furniture		1	7
		67	73
Current assets			
Amounts due from subsidiaries	(i)	100,511	202,122
Other receivables		144	154
Cash and cash equivalents		186	151
		100,841	202,427
Current liabilities			
Amounts due to a subsidiary	(i)	65	70
Other payables and accruals		2,091	3,095
Other borrowings		–	86,107
		2,156	89,272
Net current assets		98,685	113,155
Net assets		98,752	113,228
CAPITAL AND RESERVES			
Share capital		9,361	9,361
Reserves	(ii)	89,391	103,867
Total equity		98,752	113,228

On behalf of the directors:

Wang Qiu Ping *Director*	**Zhao Xiao Bao** *Director*

29. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 59 of this report.

Notes:

(i) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Movements in reserves

	Share premium RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2019	130,289	4,221	(22,394)	112,116
Loss for the year	–	–	(10,332)	(10,332)
Exchange differences arising on transaction of foreign operations	–	2,083	–	2,083
Balance at 31 December 2019 and 1 January 2020	130,289	6,304	(32,726)	103,867
Loss for the year	–	–	(8,450)	(8,450)
Exchange differences arising on transaction of foreign operations	–	(6,026)	–	(6,026)
Balance at 31 December 2020	**130,289**	**278**	**(41,176)**	**89,391**

30. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiary#	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid share capital/registered capital	Percentage of ownership interests/ voting rights/ profit share
Interests held directly				
Putian Group Investment Co., Ltd. (“**Putian Investment**”) (普天集團投資有限公司)	Corporation	Investment holding in the British Virgin Island (“**BVI**”)	Ordinary shares US dollars (“**USD**”)10,000	100
Interests held indirectly				
Putian Communication Group (HK) Limited (Formerly named as Putian Group (HK) Investment Ltd) (“**Putian HK**”) 普天通信集團(香港)有限公司 (前稱：普天集團(香港)投資有限公司)	Corporation	Investment holding in Hong Kong	Ordinary shares HK dollars (“**HKD**”)10,000	100

30. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Name of subsidiary#	Form of business structure	Place of incorporation/ operation and principal activity	Issued and fully paid share capital/registered capital	Percentage of ownership interests/ voting rights/ profit share
Interests held indirectly (Continued)				
Jiangxi Tianyuan Intelligent Technology Co., Ltd ("**Jiangxi Tianyuan**") (江西天源智能科技有限公司)*	Corporation	Investment holding in the People's Republic of China ("**The PRC**")	Renminbi ("**RMB**") 25,000,000	100
Putian Cable Group Co., Ltd ("**Putian Cable**") (普天線纜集團有限公司) ^^	Corporation	Production and sales of communication copper cables and optical fiber cables in the PRC	RMB201,000,000	100
Jiangxi Changtian Optical Communication Co., Ltd ("**Jiangxi Optical**") (江西長天光電通信有限公司) ^	Corporation	Sales of optical fiber cables in the PRC	RMB86,000,000	100
Putian Cable Group Communication Technology Co., Ltd. (Formerly named as Jiangxi Putian Building Intelligence Co., Ltd) ("**Putian Technology**") (普天線纜集團通信科技有限公司) (前稱：江西普天樓宇智能有限公司) ^	Corporation	Sales of structured cabling system products in the PRC	RMB50,000,000	100
Putian Cable Group (Shanghai) Building Intelligence Co., Ltd ("**Putian Cable (Shanghai)**") (普天線纜集團(上海)樓宇智能有限公司) ^	Corporation	Sales of structured cabling system products in the PRC	RMB30,000,000	100
Jiangxi Putian Scrap Metal Recycle Co., Ltd ("**Jiangxi Recycle**") (江西普天廢舊金屬回收有限公司) ^	Corporation	Dormant company in the PRC	RMB6,000,000	100
Jiangxi Changxun Plastic Technology Co., Ltd ("**Jiangxi Changxun**") (江西長訊塑膠科技有限公司) ^	Corporation	Dormant company in the PRC	RMB20,000,000	100
Jiangxi Putian Intelligent Technology Collaborative Innovation Co., Ltd ("**Jiangxi Intelligent**") (江西普天智能科技協同創新有限公司)	Corporation	Dormant company in the PRC	RMB80,000,000	100

\# The English names of all subsidiaries established in the PRC are translated for identification purpose only.

* These entities are established in the PRC in the form of wholly foreign-owned enterprise.

^ The entity is established in the PRC in the form of domestic limited liability company.

^^ The entity is established in the PRC in the form of domestic limited liability company. Pursuant to the Group Reorganisation, the entity became a sino-foreign owned enterprise on 22 January 2017.

None of the subsidiaries had issued any debt securities at the end of the year.

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in Group's liabilities arising from financing activities.

	Amount due to shareholders RMB'000	Borrowings RMB'000	Lease liabilities RMB'000
As at 1 January 2019	1,746	124,312	951
Cash flows:			
Proceeds from new borrowings	–	148,804	–
– Repayment of borrowings	–	(49,509)	–
– Repayment to a director	(1,746)	–	–
– Interest paid for borrowings	–	(7,847)	(62)
– Lease payments	–	–	(537)
Non-cash flows:			
– Commence of lease	–	–	314
– Capitalised borrowing costs	–	(7,941)	–
– Interest expenses	–	15,788	62
At 31 December 2019 and 1 January 2020	–	223,607	728
Cash flows:			
– Proceeds from new borrowings	–	158,932	–
– Repayment of borrowings	–	(170,107)	–
– Interest paid for borrowings	–	(2,871)	(68)
– Lease payments	–	–	(1,149)
Non-cash flows:			
– Commence of lease	–	–	1,844
– Capitalised borrowing costs	–	(13,156)	–
– Interest expenses	–	16,027	68
At 31 December 2020	–	212,432	1,423

32. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure of the Group contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment and intangible asset	**36,420**	86,169

33. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, respectively.

The directors of the Company review the capital structure on a continuous basis taking into account the loss of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary.

	2020 RMB'000	2019 RMB'000
Trade and bills payables	58,633	71,964
Accruals, deposit received and other payables	41,300	17,864
Contract liabilities	6,625	4,525
Lease liabilities	1,423	728
Borrowings	212,432	223,607
Less: Cash and cash equivalents	(43,025)	(74,440)
Net debt	277,388	244,248
Equity	500,241	468,783
Capital and net debt	777,629	713,031
Gearing ratio	35.7%	34.3%

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2020 RMB'000	2019 RMB'000
Financial assets		
Amortised cost:		
Trade, bills and other receivables	286,689	300,486
Restricted cash	30,000	22,476
Cash and cash equivalents	43,025	74,440
Financial liabilities		
Amortised costs:		
Trade, bills and other payables	92,821	86,825
Bank and other borrowings	212,432	223,607
Lease liabilities	1,423	728

35. FINANCIAL RISK MANAGEMENT

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) 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 deposits. The Group does not have an interest rate hedging policy. However, the directors of the Group monitors interest rate exposure from time to time and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. 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 2020 and 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 23.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on it floating rate bank borrowings with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2020 **RMB'000**	2019 RMB'000
Change in profit after tax and retained profits:		
+/-100 basis points	**-/+97**	-/+-

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the bank borrowing period of the loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

35. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk

At the end of the reporting period, 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 as stated in the consolidated statements of financial position.

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 receivable at the end of the 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.

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

The credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 31 December 2020 and 2019 amounted to RMB130,424,000 and RMB162,805,000 respectively, and accounted for 50.5% and 61.5% of the Group's gross trade and bills receivables. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of individual property owner or the borrower
- Significant increases in credit risk on the other financial instruments of the individual property owner or the same borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

35. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk *(Continued)*

The Group applies the simplified and general approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and bills receivables and 12-month expected credit losses for other receivables (excluding prepayments).

In measuring the expected credit losses, the trade and bills receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As at 31 December 2020 and 2019, the loss allowance provision for the remaining balances was determined as follows. The expected credit losses below also incorporated forward looking information.

Trade and bills receivables	Current (not past due)	1-30 days past due	31-60 days past due	61-90 days past due	91-365 days past due	More than one year past due	Total
At 31 December 2020							
Expected credit loss rate	**1.1%**	**–**	**–**	**47.4%**	**80.1%**	**100%**	
Gross carrying amount (RMB'000)	**252,590**	**–**	**–**	**179**	**2,897**	**2,732**	**258,398**
Loss allowance provision (RMB'000)	**2,832**	**–**	**–**	**84**	**2,320**	**2,732**	**7,968**
At 31 December 2019							
Expected credit loss rate	1.1%	–	25.3%	29.0%	53.0%	100%	
Gross carrying amount (RMB'000)	267,338	–	216	66	281	775	268,676
Loss allowance provision (RMB'000)	3,052	–	55	19	149	775	4,050

As at 31 December 2020 and 2019, the loss allowance provision for trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

	Trade and bills receivables RMB'000	**Total** RMB'000
At 1 January 2020	**4,050**	**4,050**
Provision for loss allowance recognised in profit or loss	**3,918**	**3,918**
At 31 December 2020	**7,968**	**7,968**
At 1 January 2019	2,410	2,410
Provision for loss allowance recognised in profit or loss	1,640	1,640
At 31 December 2019	4,050	4,050

35. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk *(Continued)*

As at 31 December 2020 and 2019, the gross carrying amount of trade and bills receivables was RMB258,398,000 and RMB268,676,000 respectively and thus the maximum exposure to loss was RMB7,968,000 and RMB4,050,000 respectively.

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the year:

- Increase in days past due over 60 days resulted in an increase in loss allowance of RMB4,193,000 (2019: RMB841,000).

(c) 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.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within one year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2020					
Trade, bills and other payables	**92,821**	**92,821**	**92,821**	**–**	**–**
Bank and other borrowings	**212,432**	**224,876**	**131,918**	**31,402**	**61,556**
Lease liabilities	**1,423**	**1,490**	**979**	**511**	**–**
	306,676	**319,187**	**225,718**	**31,913**	**61,556**
As at 31 December 2019					
Trade, bills and other payables	86,825	86,825	86,825	–	–
Bank and other borrowings	223,607	240,508	181,550	21,626	37,332
Lease liabilities	728	760	608	133	19
	311,160	328,093	268,983	21,759	37,351

35. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(d) Currency risk

(i) Exposure to currency risk

The Group is only exposed to currency risk through cash and cash equivalent balances that are denominated in HKD and USD, the currency other than the functional currency of the entity to which they relate.

The following table details the Group's exposure as at 31 December 2020 and 2019 to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of reporting period. Differences resulting from the translation of the financial statements of the entities with functional currency other than RMB into the Group's presentation currency are excluded.

The Company has significant financial assets and financial liabilities denominated in currencies other than its functional currency and it is exposed to currency risk.

	2020		2019	
	USD Denominated in RMB'000	**HKD Denominated in RMB'000**	USD Denominated in RMB'000	HKD Denominated in RMB'000
Cash and cash equivalents	**7**	**1,809**	507	1,640
Bank and other borrowings	**–**	**–**	–	(86,107)
	7	**1,809**	507	(84,467)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by changes in the foreign exchange rates.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**5%**	**1**	5%	25
	(5)%	**(1)**	(5)%	(25)
HKD	**5%**	**90**	5%	(4,223)
	(5)%	**(90)**	(5)%	4,223

35. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis (Continued)

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis at 31 December 2019 has been performed on the same basis.

36. EVENTS AFTER THE END OF REPORTING DATE AND EFFECT OF COVID-19

The World Health Organisation declared coronavirus and Covid-19 a global health emergency on 30 January 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

- interruptions to manufacturing activities;
- disruptions in the supply of inventory from major suppliers;
- significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary products.

Government of China in which the Group operates also implemented various measures which might mitigate some of the impact of the Covid-19 pandemic to the results and liquidity position of the Group. To the extent appropriate, the Group applies for such government assistance. Details of all of the arrangements that might be available and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty.

The directors of the Company are continuing to assess the implications of Covid-19 pandemic to the business in which the Group operates. Depending on the duration of the Covid-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on 31 March 2021.