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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1720)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2021, the Group's operating results were summarised as follows:

- Total revenue increased by approximately 14.8% to approximately RMB624.5 million (2020: approximately RMB544.1 million).
- Gross profit increased by approximately 18.8% to approximately RMB144.4 million (2020: approximately RMB121.6 million).
- Gross profit margin increased by approximately 0.8% to approximately 23.1% (2020: approximately 22.3%).
- Profit for the year attributable to the owners of the Company increased by approximately 36.2% to approximately RMB44.0 million (2020: approximately RMB32.3 million).
- Revenue from sale of communication copper cables increased by approximately 31.3% to approximately RMB353.1 million (2020: approximately RMB268.9 million); revenue from sale of structured cabling system products increased by approximately 2.4% to approximately RMB154.2 million (2020: approximately RMB150.6 million); while revenue from sale of optical fiber cables recorded a slight decrease of approximately 5.9% to approximately RMB117.2 million (2020: approximately RMB124.6 million).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Putian Communication Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2021 (the “**Year**”), together with the comparative figures for the year ended 31 December 2020 (the “**Last Year**”). The annual results have been reviewed by the audit committee of the Company and approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	4	624,540	544,059
Cost of sales		<u>(480,158)</u>	<u>(422,502)</u>
Gross profit		144,382	121,557
Other income		3,073	1,435
Selling and distribution expenses		(44,584)	(34,516)
Administrative expenses		(45,336)	(41,377)
Reversal of/(provision for) expected credit losses on financial assets		1,156	(3,918)
Finance costs	5	<u>(2,516)</u>	<u>(2,939)</u>
Profit before income tax expense	6	56,175	40,242
Income tax expense	7	<u>(12,172)</u>	<u>(7,950)</u>
Profit for the year		<u>44,003</u>	<u>32,292</u>
Profit for the year attributable to the owners of the Company		<u>44,003</u>	<u>32,292</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences		<u>(1,452)</u>	<u>(834)</u>
Other comprehensive income for the year, net of tax		<u>(1,452)</u>	<u>(834)</u>
Profit and total comprehensive income for the year		<u>42,551</u>	<u>31,458</u>
Earnings per share	8		
Basic and diluted		<u>RMB0.040</u>	<u>RMB0.029</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	455,736	360,990
Prepayment for property, plant and equipment and intangible assets		7,088	17,820
Deferred tax assets		7,733	5,885
Total non-current assets		470,557	384,695
Current assets			
Inventories		80,857	66,728
Trade and bills receivables	10	274,392	250,430
Deposits, prepayment and other receivables		90,028	68,970
Restricted cash	11	25,846	30,000
Cash and cash equivalents		65,404	43,025
Total current assets		536,527	459,153
Total assets		1,007,084	843,848
Current liabilities			
Trade and bills payables	12	101,256	58,633
Contract liabilities		5,626	6,625
Lease liabilities		1,059	922
Accruals, deposits received and other payables		69,170	41,300
Current tax liabilities		3,694	3,649
Bank and other borrowings	13	173,200	126,200
Total current liabilities		354,005	237,329
Net current assets		182,522	221,824
Total assets less current liabilities		653,079	606,519

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current liabilities			
Bank and other borrowings	<i>13</i>	86,300	86,232
Lease liabilities		354	501
Deferred tax liabilities		23,633	19,545
		<hr/>	<hr/>
Total non-current liabilities		110,287	106,278
		<hr/>	<hr/>
Total liabilities		464,292	343,607
		<hr/>	<hr/>
NET ASSETS		542,792	500,241
		<hr/>	<hr/>
EQUITY			
Share capital		9,361	9,361
Reserves		533,431	490,880
		<hr/>	<hr/>
TOTAL EQUITY		542,792	500,241
		<hr/>	<hr/>

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 2021 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 2022.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

2.1 Adoption of new or revised standards

In the current year, the Group has applied for the first time the following new or amended Financial Reporting Standards (the “**HKFRSs**”) and Hong Kong Accounting Standards (the “**HKASs**”) issued by the Hong Kong Institute of Certified Public Accountants to the Group’s financial statements for the annual period beginning on or after 1 January 2021:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2
- Amendment to HKFRS 16, COVID-19 Related Rent Concessions beyond 30 June 2021

None of these new or revised standards has a material impact on the Group’s results and financial position for the current or prior period. In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021.

2.2 New standards, interpretations and amendments not yet effective

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

Amendments to HKFRS 3, Reference to the Conceptual Framework¹

Amendments to HKAS 16, Proceeds before Intended Use¹

Amendments to HKAS 37, Onerous Contracts - Cost of Fulfilling a Contract¹

Annual Improvements to HKFRSs 2018-2020 cycle, Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments, HKFRS 16 Leases and HKAS 41 Agriculture¹

HKFRS 17 and Amendments to HKFRS 17, Insurance Contracts²

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current²

Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies²

Amendments to HKAS 8, Definition of Accounting Estimates²

Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction²

HK Interpretation 5 (2021), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause²

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³

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

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

3 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, 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 People’s Republic of China (the “**PRC**”), the Group presents its consolidated financial statements in Renminbi (“**RMB**”), unless otherwise stated.

4. REVENUE

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

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

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Optical fiber cables	117,235	124,567
Communication copper cables	353,122	268,893
Structured cabling system products	154,183	150,599
	<u>624,540</u>	<u>544,059</u>
Geographical markets:		
The PRC	<u>624,540</u>	<u>544,059</u>
Timing of revenue recognition:		
Goods transferred at a point in time	<u>624,540</u>	<u>544,059</u>

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	274,392	250,430
Contract liabilities	5,626	6,625

5. FINANCE COSTS

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest and finance charge on bank and other borrowings	10,185	16,027
Interest lease liabilities	70	68
Less: Amount capitalised (<i>Note</i>)	(7,739)	(13,156)
	2,516	2,939

Note: Borrowing costs capitalised during the year then ended arose on the general borrowing pool are calculated by applying a capitalisation rate of 5.26% (2020: 5.41%) for the year ended 31 December 2021 to expenditure on qualifying assets.

6. PROFIT BEFORE INCOME TAX EXPENSE

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,180	1,080
Cost of inventories recognised as expenses	480,158	422,502
Transportation expense	13,761	12,807
Research expenditures	16,283	15,721
Depreciation of property, plant and equipment and right-of-use assets	22,788	19,908
Write-down of inventories	2,433	619
(Reversal of)/provision for expected credit losses on financial assets	(1,156)	3,918
Interest on lease liabilities	70	68
Short-term leases expenses	1,562	1,503
Staff costs (including directors' emoluments):		
– Salaries and wages	43,038	36,418
– Defined contribution scheme	5,294	1,850
	48,332	38,268

7. INCOME TAX EXPENSE

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – PRC Enterprise Income Tax (“EIT”)		
Charge for the year	<u>9,932</u>	<u>6,173</u>
Deferred tax		
Charge to profit or loss for the year	<u>2,240</u>	<u>1,777</u>
	<u>12,172</u>	<u>7,950</u>

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 2021 (2020: 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 2021 according to the PRC tax law 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:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax expense	<u>56,175</u>	<u>40,242</u>
Tax calculated at the applicable tax rate of 25% (2020: 25%)	14,044	10,061
Effect of different tax rates	(5,638)	(5,194)
Tax effect of expenses not deductible for tax purposes	799	339
Effect attributable to the additional qualified tax deduction relating to research and development costs	(1,830)	(1,717)
Deferred tax on undistributed earnings of PRC subsidiaries	2,513	1,719
Effect of tax losses not recognised	<u>2,284</u>	<u>2,742</u>
Income tax expense	<u>12,172</u>	<u>7,950</u>

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB44,003,000 (2020: approximately RMB32,292,000) and the weighted average of 1,100,000,000 shares (2020: 1,100,000,000 shares) in issue during the year, calculated as follows:

	2021	2020
	<i>RMB</i>	<i>RMB</i>
Earnings per share		
Basic earnings per share	<u>0.040</u>	<u>0.029</u>
Number of share		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>1,100,000,000</u>	<u>1,100,000,000</u>

There were no potential dilutive ordinary shares during the years ended 31 December 2021 and 2020 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>RMB'000</i>	Land and buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2020	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)
At 31 December 2020	217,197	90,832	135,337	2,272	19,929	465,567
Additions	80,876	7,252	27,894	314	1,198	117,534
Transferred from/(to)	(194,390)	141,808	52,582	–	–	–
Disposals	–	(234)	–	–	–	(234)
At 31 December 2021	<u>103,683</u>	<u>239,658</u>	<u>215,813</u>	<u>2,586</u>	<u>21,127</u>	<u>582,867</u>
ACCUMULATED DEPRECIATION						
At 1 January 2020	–	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)
At 31 December 2020	–	26,661	65,197	2,049	10,670	104,577
Depreciation	–	6,699	12,440	142	3,507	22,788
Disposals	–	(234)	–	–	–	(234)
At 31 December 2021	<u>–</u>	<u>33,126</u>	<u>77,637</u>	<u>2,191</u>	<u>14,177</u>	<u>127,131</u>
NET BOOK VALUE						
At 31 December 2021	<u>103,683</u>	<u>206,532</u>	<u>138,176</u>	<u>395</u>	<u>6,950</u>	<u>455,736</u>
At 31 December 2020	<u>217,197</u>	<u>64,171</u>	<u>70,140</u>	<u>223</u>	<u>9,259</u>	<u>360,990</u>

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 are situated in the PRC. As at December 2021 and 2020, land and buildings with carrying amounts of RMB54,141,000 and RMB62,725,000, respectively were pledged as collateral for Group's bank and other borrowings (Note 13).

	Land and buildings <i>RMB'000</i>
Right-of-Use Assets	
At 1 January 2020	12,365
Additions	2,037
Depreciation	<u>(1,546)</u>
At 31 December 2020 and 1 January 2021	12,856
Additions	1,951
Depreciation	<u>(2,253)</u>
At 31 December 2021	<u>12,554</u>

10. TRADE AND BILLS RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	279,783	253,972
Bills receivables (<i>Note</i>)	<u>1,421</u>	<u>4,426</u>
	281,204	258,398
Less: Loss allowance	<u>(6,812)</u>	<u>(7,968)</u>
	<u>274,392</u>	<u>250,430</u>

Note: Bills receivables represented outstanding commercial acceptance bills.

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	81,701	93,840
More than 1 month but within 2 months	76,889	64,120
More than 2 months but within 3 months	39,325	47,459
More than 3 months but within 6 months	57,458	36,842
More than 6 months but within 1 year	18,217	7,659
More than 1 year	802	510
	<u>274,392</u>	<u>250,430</u>

The credit terms granted by the Group to its trade customers normally range from 180 days to 360 days.

11. RESTRICTED CASH

Bank deposits have been pledged as security for bills payables (Note 12) and bank borrowings (Note 13). The restricted cash will be released upon the settlement of relevant bank borrowings.

12. TRADE AND BILLS PAYABLES

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	59,399	42,517
Bills payables	41,857	16,116
	<u>101,256</u>	<u>58,633</u>

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 periods normally rang from 180 days to 360 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:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	33,622	21,918
More than 1 month but within 2 months	19,684	15,098
More than 2 months but within 3 months	4,912	6,419
More than 3 months but within 6 months	20,598	13,127
More than 6 months but within 1 year	21,011	869
More than 1 year	1,429	1,202
	<u>101,256</u>	<u>58,633</u>

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.

13. BANK AND OTHER BORROWINGS

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings:		
– Secured <i>(ii), (iii) & (iv)</i>	185,500	150,500
– Unsecured <i>(iv)</i>	9,000	19,000
	194,500	169,500
Other borrowings:		
– Secured <i>(ii), (iii)</i>	65,000	15,232
– Unsecured	–	27,700
	65,000	42,932
	259,500	212,432
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
On demand or within one year	173,200	126,200
Between one to two years	26,700	27,658
Between two to five years	59,600	58,574
	259,500	212,432

Notes:

- (i) The bank and other borrowings with effective interest rate is 5.26% (2020: 5.41%) per annum.
- (ii) The bank and other borrowings are secured by the assets of the Group, the carrying amounts of the assets as follows:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment (<i>Note 9</i>)	238,254	62,725
Bank deposit (<i>Note 11</i>)	25,800	30,000
	<u>264,054</u>	<u>92,725</u>

- (iii) As at 31 December 2021 and 2020, 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 2021 and 2020 set out below:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts granted	194,500	169,500
Amounts utilised	<u>194,500</u>	<u>169,500</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded improved financial results for the Year. It recorded a total revenue of approximately RMB624.5 million for the Year, which represented an increase of approximately 14.8% as compared with the one for the Last Year. The Group realised a gross profit of approximately RMB144.4 million for the Year, which represented an increase of approximately 18.8% as compared with the one for the Last Year. Profit for the Year attributable to the owners of the Company was approximately RMB44.0 million, which represented an increase of approximately 36.2% as compared with the one for the Last Year.

The increase in revenue was mainly attributable to the increase in sale of communication copper cables by approximately 31.3% to approximately RMB353.1 million for the Year (the Last Year: approximately RMB268.9 million). The sale of structured cabling system products increased by approximately 2.4% to approximately RMB154.2 million (the Last Year: approximately RMB150.6 million). The sale of optical fiber cables slightly decreased by approximately 5.9% to approximately RMB117.2 million for the Year (the Last Year: approximately RMB124.6 million).

Year 2021 signified the start of the 14th Five-Year Plan for China's national development. Under the background of frequent reoccurrence of COVID-19, China's "digital economy" has turned to a new stage characterized by deepened application, standardized development and inclusive sharing. A series of policies for "new communication infrastructure" have been introduced one after another, and macro guidance has been fully implemented. This Year, Putian Cable Group Co., Ltd* (普天纜纜集團有限公司) ("**Putian Cable**", a wholly owned subsidiary of the Company) completed the upgrade of the optical communication sector and realized the upstream expansion of the core industrial chain of optical fiber and cable. The first phase of the optical fiber drawing project has been officially completed and put into production in December 2021. The first phase contains three optical fiber drawing towers and six optical fiber production lines, which has a maximum capacity of optical fiber production of around 5 million core kilometer. Adopting the most advanced PCVD process in the world, our optical fiber production is in the leading position in the world, with competitiveness in optical fiber and cable market comprehensively enhanced in terms of effective production capacity and core technology.

Benefiting from the rapid development of digital construction in China, Putian Cable made remarkable progress in market expansion this Year, with its development of rail transit projects accelerated. It has successively won bids for a number of rail transit construction projects in Beijing, Shenzhen, Guangzhou, Changsha and other places from state-owned construction groups such as China Railway Group, Power China, and China Railway Construction, etc. At the same time, with the comprehensive acceleration of 5G construction, China's digital transformation has also been fully rolled out. On the basis of maintaining the stable cooperation with the original three major communication operators in China, the Group expanded the business cooperation with China Broadcasting Network, and strengthened its market position and service capabilities in respect of communication network construction through product and technology integration and innovation. In addition, the Group launched business cooperation with China National Nuclear Corporation and Sinopec Group. On the basis of improving the business in the power network field, the Group expanded into the energy interconnection industry, and strengthened the Group's diversified development in the field of communication products, with a view of further enhancing the Company's comprehensive competitiveness in the market. Based on its strategy of expanding to domestic use this Year, Putian Cable's competitive advantages in the communication copper cable business were prominent, especially the market application of its digital communication cables and intelligent security cable products has been significantly improved. It is believed that the strengthened cooperation with customers in the domestic use sector will further drive the growth of structured cabling system segment. The comprehensive rollout of national strategic projects such as "New Infrastructure" and "East Digital West Computing" is bound to bring a strong development impetus to the booming optical communication market, and the optical fiber and cable business in the coming year will also benefit from it.

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 increased by approximately 14.8% from approximately RMB544.1 million for the Last Year to approximately RMB624.5 million for the Year. Among which, revenue derived from sale of communication copper cables increased by approximately 31.3% from approximately RMB268.9 million for the Last Year to approximately RMB353.1 million for the Year; revenue derived from sale of structured cabling system products increased by approximately 2.4% from approximately RMB150.6 million for the Last Year to approximately RMB154.2 million for the Year; and revenue derived from sale of optical fiber cables decreased by approximately 5.9% from approximately RMB124.6 million for the Last Year to approximately RMB117.2 million for the Year.

Gross profit and margin

Gross profit increased by approximately 18.8% from approximately RMB121.6 million for the Last Year to approximately RMB144.4 million for the Year. The Group's gross profit margin increased from approximately 22.3% for the Last Year to approximately 23.1% for the Year. The increase in gross profit margin was primarily due to a mild increase in the market price of products in each of the business segments.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 29.3% from approximately RMB34.5 million for the Last Year to approximately RMB44.6 million for the Year, primarily due to the increase of approximately RMB7.3 million in salaries and welfare expenses for the selling and marketing staff and RMB1.9 million in the entertainment expenses. Selling expenses as a percentage of the Group's revenue slightly increased, which was approximately 7.1% for the Year as compared to the one of approximately 6.3% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB45.3 million for the Year, which increased by approximately 9.4% as compared to the one of approximately RMB41.4 million for the Last Year due to the increase of approximately RMB2.2 million in salaries and welfare expenses.

Finance costs

Finance costs decreased by approximately 13.8% from approximately RMB2.9 million for the Last Year to approximately RMB2.5 million for the Year. The decrease was due to that the Group has financed some bank and other borrowings at lower rates.

Income tax expense

Income tax expense increased by approximately 52.5% from approximately RMB8.0 million for the Last Year to approximately RMB12.2 million for the Year, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 19.8% for the Last Year and approximately 21.7% for the Year.

Profit for the Year

Profit for the Year increased by approximately 36.2% from approximately RMB32.3 million for the Last Year to approximately RMB44.0 million for the Year.

Cash position

As at 31 December 2021, the Group had an aggregate of restricted cash, cash and cash equivalents of approximately RMB91.3 million (2020: approximately RMB73.0 million), representing an increase of approximately 25.1% as compared to that as at 31 December 2020. As at 31 December 2021, the Group had restricted cash of approximately RMB25.8 million (2020: RMB30.0 million) that was pledged to banks for various banking facilities.

Borrowings and charges on the Group's assets

As at 31 December 2021, the Group had bank borrowings of approximately RMB194.5 million (2020: approximately RMB169.5 million) and out of which RMB185.5 million was secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates, and the remaining of RMB9.0 million was unsecured. Bank and other borrowings of approximately RMB173.2 million will be repayable within one year.

Save as disclosed in this announcement, the Group did not have any charges of assets as at 31 December 2021 (2020: 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 2021, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.86 (2020: approximately 0.68).

Total debt to total asset ratio

As at 31 December 2021, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.46 (2020: approximately 0.40).

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 2021 and 2020 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 13 to the consolidated financial statements.

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 was 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 statement of financial position.

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the Directors 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 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 credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 31 December 2021 and 2020 amounted to RMB112,712,000 and RMB130,424,000 respectively, and accounted for 40.1% and 50.5% of the Group's gross trade and bills receivables. In order to minimise the credit risk, the Directors continuously monitor the level of exposure by frequent review 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 the borrower
- Significant increases in credit risk on the other financial instruments of 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

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, unless there is significant increase in credit risk since initial recognition.

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.

Liquidity risk

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

Currency risk

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

Capital Commitments

As at 31 December 2021, 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 RMB8.4 million (2020: approximately RMB36.4 million). The capital commitments incurred at the end of the Year were mainly contracted for provision of services and technical support for the setting up of the optical fiber factory.

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 2021, the Group had approximately 469 employees (2020: approximately 412 employees). For the Year, the Group incurred staff costs of approximately RMB48.3 million (2020: approximately RMB38.3 million). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

OUTLOOK

Accelerating the construction of new infrastructure is a major decision and deployment made by the Party Central Committee and the State Council, and it is also an important task specified in the Outline of the 14th Five-Year Plan. With the accelerated construction of digital communication projects such as fifth-generation mobile communication technology, “East Digital West Computing”, Industrial Internet+, Smart City, and National Big Data, digital transmission and basic network layout have become the key to the intelligent transformation of traditional infrastructure, and formed the structural foundation for the deep integration of communication networks, digital technology and the real economy, and the foundation for the development of China’s digital economy model.

The “14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Outline of the Vision for 2035” mentioned that it is necessary to deploy the construction of information infrastructure, accelerate the large-scale deployment of 5G networks, increase the user penetration rate to 56%, and promote and upgrade gigabit optical fiber network. It also clearly put forward two special projects for information network construction: “optimization and upgrading project of information network infrastructure” and “new smart city and digital village construction project”. On 12 December 2021, the State Council issued the “Notice on the 14th Five-Year Plan for the Development of the Digital Economy”, clearly proposing guidelines for accelerating the construction of information network infrastructure and optimizing and upgrading digital infrastructure. It further promoted the implementation of “Digital China” and “New Infrastructure” data communication construction projects. “High-speed data transmission”, as the basic network construction requirement of “New Infrastructure”, has become the application standard of digital communication network and optical communication network construction nowadays. The “Notice on Organizing and Implementing New Infrastructure Construction Projects (Broadband Network and 5G Field) in 2020” issued by the Development and Reform Commission of the State Council and the “Double Gigabit” Coordinated Development Action Plan (2021-2023) issued by the Ministry of Industry and Information Technology, clarified from the perspective of policy guidance that data cables and optical cables at Super-Category 6e and above and their connecting products will become the backbone of 5G network cabling. On 12 January 2022,

the State Council issued the Notice on Printing and Distributing the “14th Five-Year” Digital Economy Development Plan, which further pointed out that the construction of information network infrastructure should be accelerated, the expansion of the backbone network should be promoted in an orderly manner, and the gigabit fiber network and 5G network should be jointly promoted, to improve the coverage level of Internet of Things in industrial manufacturing and other fields.

After the Ministry of Industry and Information Technology issued the “Three-Year Action Plan for the Development of New Data Centers (2021-2023)”, the National Development and Reform Commission, the Cyberspace Administration Office, the Ministry of Industry and Information Technology, and the National Energy Administration jointly issued a notice on 17 February 2022, agreeing to start the construction of national computing power hub nodes in 8 places including Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area, Chengdu-Chongqing, Inner Mongolia, Guizhou, Gansu, and Ningxia, and plan 10 national data center clusters. So far, the overall layout design of the national integrated big data center system has been completed, and the “East Digital West Computing” project has been officially launched. It is a long-term project that stretches for decades, and a project with heavy asset investment and a long investment chain. The investment volume may be in hundreds of billions. It marks the all-round start of the cluster construction of data centers. As an important part of “New Infrastructure”, this will inevitably lead to the rapid development of China’s data center-related industrial chain, and inject surging power into the “link” construction of digital communication networks and optical communication networks. As a leading supplier of intelligent link products in China, Putian Cable has a complete range of products and solutions in the industry. The “East Digital West Computing” project contains the construction requirements on a large number of data centers, data transmission products, optical transmission products, etc. Putian Cable has a wide range of market applications and technical accumulation in these product fields, and has the ability to play a huge role in the “East Digital West Computing” project. It brings greater market application space for the expansion of the Group’s structured cabling business. At the same time, according to the public tender information published by Chinese communication operators recently, the tender prices of communication cable products are all on the rise, indicating that the communication product industry is expected to recover in an all-round way, and the prospects are optimistic.

The Group will create value for customers by optimizing the structure of the industrial chain and building a business development system of the whole value chain. The Group will continuously optimize and integrate the upstream and downstream resources of the industry, further strengthen its presence and competitiveness in the industry through the research and development and upgrading of optical fiber technology, accelerated development and market promotion of communication optical cables, and active participation in the “new communication infrastructure” construction projects. It is committed to becoming a leading manufacturer and technical service provider of diversified products such as fiber optic cables, digital communication cables, automatic control cables of intelligent equipment, structured cabling, data center products and solutions in China’s communication industry.

In December 2021, the first phase of the Group’s “new non-dispersive single-mode optical fiber and optical cable production line” construction project was officially completed and put into production, laying a solid foundation for the diversified development of the optical fiber industry, while completing the layout of the optical fiber sector and optimizing the cost structure of optical cables. The Group will seize the opportunities presented by the development of the optical fiber and cable market, release product and technical reserves with focus on the needs of new infrastructure and 5G network constructions, and actively expand the cooperation channels for optical communication construction projects with the state-owned construction groups while maintaining cooperation with communication operators. Relying on the competitive advantage of independent production of optical fibers, the Group will act on its own optical cable products, or meet the demand of optical cable raw materials of other manufacturers in the industry, with a view of further establishing the influence and market competitiveness of the Group in the industry.

In addition, the Group will unswervingly follow the “innovation-driven” path for high-quality development, continue to increase investment in research and development, and cultivate and improve the capabilities of system solution integration. It has drafted or participated in the compilation of a number of “National and Industry Standards”, and with the implementation of the “White Paper of Industrial Ethernet Cabling Application Technology”, the “White Paper of Data Center 400G Network Technology” and other standards in the coming year, Putian Cable will expand its bidding and cooperation advantages of construction projects in the domestic use sector through the industrial technology conversion of communication copper cables and structured cabling products. In addition, in tandem with the integrated industrial chain, product differentiation and diversified market development, the Group will leverage on the advantages of its marketing network, and quickly grasp the new market opportunities of 5G, industrial Internet, Internet of Things and other information interconnection, energy interconnection, and interconnection of everything, to realize the high degree of synergy between the Group’s production capacity layout and the market demand, enhance the business competitiveness of communication network projects, and achieve the transformation from “product supplier” to “system integration service provider”.

Looking forward to the future, the digital wave is rolling in, the digital transformation is surging, and the intelligent society is about to start. The Group will actively grasp the new trends of the new era, and maximize the value of digital connections, to promote the digital transformation of the society, so that the digital economy can better benefit the mankind and the society.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the Year (2020: Nil).

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had sold, purchased or redeemed any of the Company’s listed securities during 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 (the “**Shareholders**”) 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.

Chairman of the Board and Chief Executive Officer

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during the Year.

Audit committee

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

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

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

Since 1 January 2021 and up to the date of this announcement, the Audit Committee had held three meetings, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the Year and this announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosure thereof.

Remuneration committee

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

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

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

Since 1 January 2021 and up to the date of this announcement, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

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

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

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

Since 1 January 2021 and up to the date of this announcement, the Nomination Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and address significant issues arising from the work conducted.

COMPETING BUSINESS

The Company received confirmations from the controlling Shareholders in March 2022 on their compliance of the non-competition undertaking under the deed of non-competition as disclosed in the section headed “Relationship with Controlling Shareholders” in the prospectus of the Company dated 27 October 2017 (“**Deed of non-competition**”) for the Year. The independent non-executive Directors have reviewed the confirmations and evaluated the effectiveness of the implementation of the Deed of non-competition and concluded that none of the controlling Shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules and pursuant to the Deed of non-competition during the Year.

EVENTS AFTER THE REPORTING PERIOD

There was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the Year.

SHARE OPTION SCHEME

The Company’s share option scheme (the “**Share Option Scheme**”) was adopted pursuant to a resolution passed on 21 October 2017. From the date of the adoption of the Share Option Scheme and up to the end of the Year, no share option has been granted, or agreed to be granted, under the Share Option Scheme and therefore, there were no outstanding options as at 31 December 2021 (2020: Nil).

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by BDO Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by BDO Limited on the preliminary announcement.

ANNUAL REPORT

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

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

The PRC, 31 March 2022

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