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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

FINANCIAL HIGHLIGHTS

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

- Total revenue decreased by approximately 6.4% to approximately RMB244.7 million (the Last Period: approximately RMB261.5 million).
- Gross profit decreased by approximately 15.5% to approximately RMB51.2 million (the Last Period: approximately RMB60.6 million).
- Gross profit margin dropped to 20.9% (the Last Period: approximately 23.2%).
- Profit for the Period attributable to owners of the Company decreased by approximately 84.5% to approximately RMB2.6 million (the Last Period: approximately RMB16.8 million).
- Revenue generated from sale of communication copper cables decreased by approximately 36.2% to approximately RMB101.7 million (the Last Period: approximately RMB159.3 million) while revenue generated from sale of optical fibers and optical fiber cables increased by approximately 114.7% to approximately RMB89.1 million (the Last Period: approximately RMB41.5 million); and revenue generated from sale of structured cabling system products decreased by approximately 11.2% to approximately RMB53.9 million (the Last Period: approximately RMB60.7 million).
- The Board did not recommend the payment of an interim dividend for the Period (the Last Period: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Putian Communication Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim result of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022 (the “**Period**”), together with the comparative figures for the corresponding period in 2021 (the “**Last Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	5	244,700	261,479
Cost of sales		<u>(193,509)</u>	<u>(200,858)</u>
Gross profit		51,191	60,621
Other income	6	381	1,447
Selling and distribution expenses		(21,843)	(20,064)
Administrative expenses		(18,021)	(15,875)
Expected credit losses on financial assets		(647)	(3,190)
Finance costs	7	<u>(7,898)</u>	<u>(2,396)</u>
Profit before income tax expense	8	3,163	20,543
Income tax expense	9	<u>(523)</u>	<u>(3,749)</u>
Profit for the Period		<u>2,640</u>	<u>16,794</u>
Profit for the Period attributable to owners of the Company		<u>2,640</u>	<u>16,794</u>
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>170</u>	<u>(100)</u>
Other comprehensive income for the Period, net of tax		<u>2,810</u>	<u>16,694</u>
Profit and total comprehensive income for the Period		<u>2,810</u>	<u>16,694</u>
Earnings per share	10		
Basic and diluted		<u>RMB0.002</u>	<u>RMB0.015</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	458,645	455,736
Prepayment for property, plant and equipment and intangible assets		4,916	7,088
Deferred tax assets		7,733	7,733
		<hr/>	<hr/>
Total non-current assets		471,294	470,557
Current assets			
Inventories	<i>12</i>	91,323	80,857
Trade and bills receivables	<i>13</i>	265,462	274,392
Deposits, prepayment and other receivables		142,042	90,028
Tax recoverables		2,204	–
Restricted cash	<i>14</i>	17,389	25,846
Cash and cash equivalents		36,464	65,404
		<hr/>	<hr/>
Total current assets		554,884	536,527
		<hr/>	<hr/>
Total assets		1,026,178	1,007,084
Current liabilities			
Trade and bills payables	<i>15</i>	72,300	101,256
Contract liabilities	<i>16</i>	12,374	5,626
Accruals, deposits received and other payables		66,754	69,170
Current tax liabilities		–	3,694
Bank and other borrowings	<i>17</i>	210,500	173,200
Lease liabilities		1,449	1,059
		<hr/>	<hr/>
Total current liabilities		363,377	354,005
		<hr/>	<hr/>
Net current assets		191,507	182,522
		<hr/>	<hr/>
Total assets less current liabilities		662,801	653,079
		<hr/>	<hr/>

		30 June	31 December
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Bank and other borrowings	<i>17</i>	91,269	86,300
Deferred tax liabilities		23,545	23,633
Lease liabilities		933	354
		<hr/>	<hr/>
Total non-current liabilities		115,747	110,287
		<hr/>	<hr/>
Total liabilities		479,124	464,292
		<hr/>	<hr/>
NET ASSETS		547,054	542,792
		<hr/>	<hr/>
EQUITY			
Share capital		9,361	9,361
Reserves		537,693	533,431
		<hr/>	<hr/>
TOTAL EQUITY		547,054	542,792
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies laws. The Company was listed on The Stock Exchange of Hong Kong Limited on 9 November 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located in the People's Republic of China (the "PRC"). The Group, comprising the Company and its subsidiaries, is principally engaged in production and sale of optical fiber cables, communication copper cables and structured cabling system products.

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

This interim condensed consolidated financial statements have been approved and authorised for issue by the Board of Director of the Company on 31 August 2022.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the Period have neither been audited nor reviewed by the Company's auditors, but have been reviewed by the Company's audit committee (the "Audit Committee"), which have been prepared in accordance with HKAS 34, Interim Financial Reporting issued by Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2021 (the "2021 Financial Statements"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ADOPTION OF NEW OR REVISED HKFRSs

The Group has applied for the first time the following new and revised standards and interpretation ("new and revised HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are effective for the Group's financial year beginning on or after 1 January 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
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the Period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. ESTIMATES

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2021 Financial Statements.

5. SEGMENT INFORMATION

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

(i) Business Segments

	Six months ended 30 June 2022 (Unaudited)			
	Optical fibers and optical fiber cables <i>RMB'000</i>	Communication copper cables <i>RMB'000</i>	Structured cabling system products <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue	<u>89,106</u>	<u>101,666</u>	<u>53,928</u>	<u>244,700</u>
Reportable segment profit	<u>7,288</u>	<u>3,397</u>	<u>15,550</u>	<u>26,235</u>

	Six months ended 30 June 2021 (Unaudited)			
	Optical fiber cables <i>RMB'000</i>	Communication copper cables <i>RMB'000</i>	Structured cabling system products <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue	<u>41,468</u>	<u>159,311</u>	<u>60,700</u>	<u>261,479</u>
Reportable segment profit	<u>2,986</u>	<u>14,519</u>	<u>18,167</u>	<u>35,672</u>

(ii) **Reconciliation of profit or loss:**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Segment results	26,235	35,672
Other income	381	1,447
Unallocated expenses	(15,555)	(14,180)
Finance costs	(7,898)	(2,396)
	<u>3,163</u>	<u>20,543</u>
Income tax expense	(523)	(3,749)
Profit after taxation	<u>2,640</u>	<u>16,794</u>

(iii) **Geographic information**

No geographical segment information is shown as, during the Period, less than 10% of the Group's segment revenue, segment results and segment assets are derived from activities conducted outside the PRC.

6. **OTHER INCOME**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income and others	213	55
Government grants	–	1,000
Gains on sale of scrap materials	168	392
	<u>381</u>	<u>1,447</u>

7. **FINANCE COSTS**

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charge on bank and other borrowings	7,857	4,181
Interest charge on lease liabilities	41	40
Less: Amount capitalised	–	(1,825)
	<u>7,898</u>	<u>2,396</u>

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	193,509	200,858
Research and development expenditure	3,113	4,884
Depreciation of property, plant and equipment	13,256	10,302
Depreciation of right-of-use asset	916	660
Short-term lease	991	736
Expected credit losses on financial assets	647	3,190
	<u> </u>	<u> </u>
Staff costs (including directors' emoluments):		
– Salaries and wages	19,242	18,086
– Defined contribution scheme	3,324	3,054
	<u> </u>	<u> </u>
	<u>22,566</u>	<u>21,140</u>

9. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC Enterprise Income Tax (the “EIT”)	610	3,289
Deferred income tax credit to profit or loss for the Period	(87)	460
	<u> </u>	<u> </u>
Income tax expenses	<u>523</u>	<u>3,749</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the Period (the Last Period: Nil).

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the Company’s PRC subsidiaries is 25%.

Provision for the PRC EIT for the Period was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Putian Cable Group Co., Ltd, one of the subsidiaries of the Company, is entitled to a preferential income tax rate of 15% for the Period and the Last Period, as it was awarded high-technology status by tax authority.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB2,640,000 (the Last Period: approximately RMB16,794,000) and the weighted average of 1,100,000,000 shares (the Last Period: 1,100,000,000 shares) in issue during the Period, calculated as follows:

	Six months ended 30 June	
	2022	2021
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	<u>0.002</u>	<u>0.015</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 Period and the Last Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Unaudited RMB'000
Net book value as at 1 January 2022	455,736
Additions	17,081
Depreciation	<u>(14,172)</u>
Net book value as at 30 June 2022	<u>458,645</u>

	Audited <i>RMB'000</i>
Net book value as at 1 January 2021	360,990
Additions	117,534
Depreciation	<u>(22,788)</u>
Net book value as at 31 December 2021	<u>455,736</u>

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

12. INVENTORIES

	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Raw materials	38,721	38,912
Finished goods	<u>52,602</u>	<u>41,945</u>
	<u>91,323</u>	<u>80,857</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Trade receivables	272,002	279,783
Bills receivables (i)	<u>919</u>	<u>1,421</u>
	272,921	281,204
Less: Loss allowances	<u>(7,459)</u>	<u>(6,812)</u>
	<u>265,462</u>	<u>274,392</u>

Note:

- (i) Bills receivables represented outstanding commercial acceptance bills.

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	72,106	81,701
More than 1 month but within 2 months	52,831	76,889
More than 2 months but within 3 months	23,050	39,325
More than 3 months but within 6 months	27,396	57,458
More than 6 months but within 1 year	89,545	18,217
More than 1 year	534	802
	<u>265,462</u>	<u>274,392</u>

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

14. RESTRICTED CASH

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

15. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	42,647	59,399
Bills payables	29,653	41,857
	<u>72,300</u>	<u>101,256</u>

The credit terms of trade payables vary according to the terms agreed with different suppliers, which normally ranging from 30 days to 90 days, and bills payables maturity period is normally within 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:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	18,982	33,622
More than 1 month but within 2 months	16,261	19,684
More than 2 months but within 3 months	17,044	4,912
More than 3 months but within 6 months	6,607	20,598
More than 6 months but within 1 year	11,790	21,011
More than 1 year	<u>1,616</u>	<u>1,429</u>
	<u>72,300</u>	<u>101,256</u>

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.

16. CONTRACT LIABILITIES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contract liabilities arising from:		
Sale of goods	<u>12,374</u>	<u>5,626</u>
	<u>12,374</u>	<u>5,626</u>
		RMB'000
Balance as at 1 January 2022		5,626
Decrease in contract liabilities as a result of recognising revenue during the Period that was included in the contract liabilities at the beginning of the Period		(5,626)
Increase in contract liabilities as a result of billing in advance of sales of goods		<u>12,374</u>
Balance as at 30 June 2022		<u>12,374</u>

17. BANK AND OTHER BORROWINGS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Bank borrowings:		
– Secured (ii), (iii) & (iv)	210,500	185,500
– Unsecured (iv)	<u>35,000</u>	<u>9,000</u>
	245,500	194,500
Other borrowing:		
– Secured (ii), (iii)	<u>56,269</u>	<u>65,000</u>
	<u>301,769</u>	<u>259,500</u>
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
On demand or within one year	210,500	173,200
Between one to two years	91,269	26,700
Between two to five years	<u>–</u>	<u>59,600</u>
	<u>301,769</u>	<u>259,500</u>

Notes:

- (i) The bank borrowings with effective interest rate is 4.51% (2021: 5.26%) per annum.
- (ii) The bank and other borrowings are secured by the assets of the Group, the carrying amounts of the assets are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Property, plant and equipment	280,721	238,254
Bank deposits	<u>17,389</u>	<u>25,846</u>
	<u>298,110</u>	<u>264,100</u>

- (iii) As at 30 June 2022 and 31 December 2021, guarantees were provided by the controlling shareholders and their associates for the bank and other borrowings.
- (iv) A summary of facilities granted by banks and the amounts utilised by the Group at 30 June 2022 and 31 December 2021 is set out below:

	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Amounts granted	245,500	194,500
Amounts utilised	245,500	194,500

18. CAPITAL COMMITMENTS

	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
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	8,400	8,400

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded a revenue of approximately RMB244.7 million for the Period which represented a decrease of approximately 6.4% as compared with the one for the Last Period. The Group has realised a gross profit of approximately RMB51.2 million for the Period, which represented a decrease of approximately 15.5% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB2.6 million, which represented a decrease of approximately 84.5% as compared with the one for the Last Period.

Sale of communication copper cables decreased by approximately 36.2% to approximately RMB101.7 million (the Last Period: approximately RMB159.3 million) while the sale of optical fibers and optical fiber cables increased by approximately 114.7% to approximately RMB89.1 million (the Last Period: approximately RMB41.5 million) and the sale of structured cabling system products decreased by approximately 11.2% to approximately RMB53.9 million (the Last Period: approximately RMB60.7 million).

PERFORMANCE REVIEW

In the first half of 2022, the recurring COVID-19 pandemic in China, especially the pandemic's greater impact on the economically developed areas in the east, has caused the construction works of some downstream industries and customers, in particular, the engineering customers, of Putian Cable Group Co., Ltd* (普天纜纜集團有限公司) (“**Putian Cable**”), a wholly owned subsidiary of the Company, to slow down. Meanwhile, the price of copper (being the Group's main raw material) fluctuated at a high level during the Period, which put the Group's production under costs pressure. The above factors also had certain effect on some of the Group's communication cable products (including wires and cables) and structured cabling system products. Driven by policies and the industry trend, and with the roll-out of national strategic projects such as 5G and Eastern Data and Western Computing, the “new communication infrastructure” primarily based on optical communication construction has developed rapidly, which resulted in a significant growth in the optical fiber cable business and provides a support to the stability of the Group's performance in the future. In relation to market expansion, the Group continued to expand its rail transit projects. While ensuring continuous cooperation with the state-owned construction groups such as China Railway Group, Power China and China Railway Construction, it has also established cooperation with China Railway in respect of national railway construction. With the development of “new infrastructure” communication network construction projects such as 5G network, gigabit optical fiber network, data center and industrial internet, by virtue of its competitive edge in the optical fiber cable products and technology services market, the Group also provides high-quality communication optical cable products and technology services to China Unicom, China Comservice and other companies catering to their needs of optical communications construction, on the basis of its strong partnership with the three major communication operators in China in respect of communication copper cable products.

OUTLOOK

In the first half of 2022, the communications industry in China showed a moderately improving posture, as reflected by the accelerating construction and application of 5G and gigabit optical networks, the improving information and communication supply capacity and the increasing new momentums for industry development. According to the data released by the Ministry of Industry and Information Technology of China, for the first half of 2022, the telecommunications sector posted a revenue of RMB815.8 billion in aggregate, up 8.3% from the same period last year; and mobile internet access traffic of 124.1 billion GB, up 20.2%. Among these, revenue contributed by Big Data, Data Center and Internet of Things rose by 56.4%, 17.3% and 26.9% respectively. As of the end of June, in China, there were 1.03 billion broadband internet access ports, representing a net increase of 16.85 million from the end of last year; 985 million FTTH/O ports, representing a net increase of 25.17 million from the end of last year; 11.03 million 10G PON ports with gigabit network service capabilities, representing a net increase of 3.18 million from the end of last year; and 1.854 million 5G base stations, representing an increase of 3.6 percentage points from the end of last year. Construction of the communications infrastructure, as an essential material base and key support for the development of digital economy, is in full swing in China, aiming to establish a horizontally linked and vertically connected strategic communications system for the digital economy.

Industry landscape and trends

With the successive release of the “Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China”, “14th Five-Year Plan for National Informatisation”, “14th Five-Year Plan for the Development of the Information and Communication Industry”, “‘Dual Gigabit’ Network Coordinated Development Action Plan (2021-2023)”, “14th Five-Year Plan for the Development of the Digital Economy” and other related policies, the coverage and widespread application of new information infrastructure such as 5G and gigabit optical networks have been accelerated and mobile internet traffic has continued to grow rapidly, enabling the continuous improvement of the quality of the communications industry in the country and laying a solid foundation for the realisation of the Digital China Strategy. Recently, upon the approval of the State Council, the Ministry of Housing and Urban-Rural Development and the National Development and Reform Commission again jointly issued and implemented the “14th Five-Year Plan for National Urban Infrastructure Construction” to make a comprehensive and systematic arrangement for the development of urban infrastructure during the “14th Five-Year Plan” period. Particularly, in the section under “Intelligent Urban Infrastructure Construction”, it clearly proposes to “promote the construction of a new generation of information and communication infrastructure” and specifies three tasks: steadily promoting the construction of 5G networks; accelerating the construction of “gigabit cities”; and speeding up the construction of intelligent broadcast and television networks. According to the data from the National Bureau of Statistics, in the first half of 2022, China’s total optical cable output rose 9.7% to 165 million core kilometers. CRU, a world-renowned third-party consulting firm, predicts that the demand for optic fiber cables in China will reach 261 million core kilometers by 2022, representing a year-on-year increase of 6.5%. Moreover, the “East Data and West Computing” project was officially launched in China in the first half of the year. As a channel for east-west data transmission, optical fiber cable will drive the demand in the industry. At the same time, the successive commencement of the upgrading project for trunk optical cables by the three major operators will also promote the application of G.654E optical fibers and bring new market opportunities and development space to the optical fiber cable industry.

Development strategies

Riding on the opportunities arising from 5G development, new infrastructure construction and digital transformation, through the expansion of new production capacity and technology transformation of production lines, the Group will improve the overall production capacity of the optical communication industry chain, continue to optimise industry chain structure and integrate the upstream and downstream resources in the industry to develop an intelligent data transmission ecosystem focusing on technology research and development, manufacturing process, product system, market application and marketing services. The Group will also concentrate on optical fiber cables, digital communication cables, automatic control cables for intelligent equipment, data centers and structured cabling system products, and make innovative applications and improve service efficiency. It will take further steps to accelerate market expansion, for example, participating in the centralised procurement and tendering organised by operators or major customers, continue to promote business in the construction of power, broadcast and television, transportation and railways, and extend vertical business scenarios to create new growth points for performance improvement.

Business plan

“Maintaining stability before seeking progress” is the general keynote of China economic work in 2022, and also the basic principle of the Group’s operations. In July 2022, the second phase of the Group’s optical fiber drawing project “new non-dispersive single-mode optical fiber and optical cable production line” commenced construction. It is scheduled to expand three optical fiber draw towers and add six optical fiber production lines to optimise and upgrade the cost structure of the optical fibers, optical cables and optical fiber connection products and establish its presence in the optical fiber and cable industry with an annual optical fiber output of 10 million core kilometers. The project is expected to be completed and put into production in 2024. In the meantime, in order to effectively solidify foundation, improve quality and increase efficiency of the communication copper cable business segment, construction of an intelligent control fiber cable production project commenced in anticipation of meeting market needs through the improvement of manufacturing process and production efficiency, and improve market competitiveness through identifying the needs of various communication copper cable products and deepening cooperation scope with customers. Besides, the approval and construction of the upgrading project in respect of the Group’s digital production management system is a digital management upgrade of the entire industry chain, including manufacturing, supply chain management, financial management, warehousing management, and quality management, which not only improves the efficiency of technology reserve transforming into productivity, but also starts the digital transformation of the Group’s production.

In addition, the Group will step up efforts to expand new data center business, improve sales scale, enhance the operational capabilities of new lines of business, and accelerate the development of new growth poles for the Company. In the field of high-frequency, high-speed and high-density optical fiber connectors, underpinned by its own technology advantages, the Group will focus on the research and development of MPO products, and continue to promote the implementation of relevant projects.

In the future, the Group will give full play to its core technology advantages in data transmission and optical communication, take the “construction of communication networks for the digital economy” as the mainline of development, and focus on the development and expansion of technology products and application in the fields of smart city, smart building, all-optical network, 5G communication and optical communication and data communication to contribute to the digital transformation in China.

FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products, which are three reportable segments. Revenue of the Group decreased by approximately 6.4% from approximately RMB261.5 million for the Last Period to approximately RMB244.7 million for the Period. Revenue generated from sale of communication copper cables decreased by approximately 36.2% to approximately RMB101.7 million (the Last Period: approximately RMB159.3 million) while revenue generated from sale of optical fibers and optical fiber cables increased by approximately 114.7% to approximately RMB89.1 million (the Last Period: approximately RMB41.5 million); and revenue generated from sale of structured cabling system products decreased by approximately 11.2% to approximately RMB53.9 million (the Last Period: approximately RMB60.7 million).

Gross profit and margin

Gross profit decreased by approximately 15.5% to approximately RMB51.2 million for the Period from approximately RMB60.6 million for the Last Period, while the Group’s gross profit margin dropped to approximately 20.9% for the Period as compared to the one of approximately 23.2% for the Last Period.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 8.5% from approximately RMB20.1 million for the Last Period to approximately RMB21.8 million for the Period, primarily due to the increase of approximately RMB2.5 million in staff costs.

Administrative expenses

Administrative expenses increased by approximately 13.2% from approximately RMB15.9 million for the Last Period to approximately RMB18.0 million for the Period, primarily due to the increase in staff costs of approximately RMB1.2 million for approximately RMB5.5 million for the Last Period to approximately RMB6.7 million for the Period.

Finance costs

Finance costs increased by approximately 229.2% from approximately RMB2.4 million for the Last Period to approximately RMB7.9 million for the Period primarily due to more borrowings have incurred and no interest has been capitalised for the Period.

Income tax expense

Income tax expense decreased by approximately 86.5% from approximately RMB3.7 million for the Last Period to approximately RMB0.5 million for the Period, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 15.6% for the Period and approximately 18.2% for the Last Period.

Profit for the Period

As a result of the foregoing, profit for the Period decreased by approximately 84.5% from approximately RMB16.8 million for the Last Period to approximately RMB2.6 million for the Period.

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2022, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB53.9 million (31 December 2021 : approximately RMB91.3 million), representing a decrease of approximately 41.0% as compared to that as at 31 December 2021.

BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

As at 30 June 2022, the Group had bank and other borrowings of approximately RMB301.8 million (31 December 2021: approximately RMB259.5 million), approximately 266.8 million out of which was secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. RMB210.5 million out of the bank and other borrowings are repayable within one year.

Gearing ratio

As at 30 June 2022, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.88 (31 December 2021: approximately 0.86).

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 monitor interest rate exposure from time to time and will consider hedging significant interest rate exposure should the need arise.

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

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain bank and other borrowings of the Group as at 30 June 2022 and 31 December 2021 bore interest at floating rates.

Credit risk

At at 30 June 2022, 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 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 30 June 2022 and 31 December 2021 amounted to approximately RMB66.4 million and approximately RMB112.7 million respectively, and accounted for 24.3% and 40.1% 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 of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

Capital Commitments

As at 30 June 2022, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB8.4 million (31 December 2021: approximately RMB8.4 million).

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

Employees and remuneration policies

As at 30 June 2022, the Group had 656 employees (31 December 2021: 469 employees). For the Period, the Group incurred staff costs of approximately RMB22.6 million (the Last Period: RMB21.1 million). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

INTERIM DIVIDEND

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

CONTINGENT LIABILITIES AND LITIGATION

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

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a resolution passed on 21 October 2017. From the date of the adoption of the Share Option Scheme and up to the end of the Period, no share option has been granted, or agreed to be granted, under the Share Option Scheme.

For details of the Share Option Scheme, please refer to the section headed "Statutory and General Information – 15. Share option scheme" in the the prospectus of the Company dated 27 October 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had sold, purchased or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. Save for the deviation as disclosed herein below, the Company has complied with the applicable code provisions as set out in the CG Code during the Period.

Chairman of the Board and Chief Executive Officer

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

Ms. Wang is the chairlady of the Board and the chief executive officer of the Company. Although this deviates from the practice under provision C.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Ms. Wang has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interest of the Company and the shareholders of the Company as a whole to continue to have Ms. Wang as the chairlady of the Board so that the Board can benefit from her knowledge of the business and her capability in leading the Board in the long term development of the Group. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The Audit Committee consists of three independent non-executive Directors, namely, Ms. Cheng Shing Yan, Mr. Liu Guodong and Mr. Xie Haidong. Ms. Cheng Shing Yan who possesses the appropriate professional qualifications as required under Rule 3.10(2) and Rule 3.21 of the Listing Rules is the chairlady of the Audit Committee.

The unaudited interim condensed consolidated financial statement of the Group for the Period has been reviewed by the Audit Committee.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim announcement, the Company has maintained sufficient public float throughout the Period as required under the Listing Rules.

AUDITOR

BDO Limited (“**BDO**”) is currently the auditor of the Company. A resolution for the re-appointment of BDO as auditor of the Company has been approved at the annual general meeting of the Company held on 20 June 2022.

COMPLIANCE WITH LAWS AND REGULATIONS

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

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

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

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

The PRC, 31 August 2022

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