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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 2023**

FINANCIAL HIGHLIGHTS

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

- Total revenue increased by approximately 10.5% to approximately RMB270.5 million (the Last Period: approximately RMB244.7 million).
- Gross profit increased by approximately 9.6% to approximately RMB56.1 million (the Last Period: approximately RMB51.2 million).
- Gross profit margin dropped to 20.7% (the Last Period: approximately 20.9%).
- Profit for the Period attributable to owners of the Company increased by approximately 76.9% to approximately RMB4.6 million (the Last Period: approximately RMB2.6 million).
- Revenue generated from sale of communication copper cables increased by approximately 67.1% to approximately RMB169.9 million (the Last Period: approximately RMB101.7 million) while revenue generated from sale of optical fibers and optical fiber cables decreased by approximately 33.8% to approximately RMB59.0 million (the Last Period: approximately RMB89.1 million); and revenue generated from sale of structured cabling system products decreased by approximately 22.8% to approximately RMB41.6 million (the Last Period: approximately RMB53.9 million).
- The Board did not recommend the payment of an interim dividend for the Period (the Last Period: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Putian Communication Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim result of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2023 (the “**Period**”), together with the comparative figures for the corresponding period in 2022 (the “**Last Period**”) as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	270,478	244,700
Cost of sales		<u>(214,381)</u>	<u>(193,509)</u>
Gross profit		56,097	51,191
Other income	6	2,033	381
Selling and distribution expenses		(21,326)	(21,843)
Administrative expenses		(20,549)	(18,021)
Expected credit losses on financial assets		(485)	(647)
Finance costs	7	<u>(9,631)</u>	<u>(7,898)</u>
Profit before income tax expense	8	6,139	3,163
Income tax expense	9	<u>(1,499)</u>	<u>(523)</u>
Profit for the Period		<u>4,640</u>	<u>2,640</u>
Profit for the Period attributable to owners of the Company		<u>4,640</u>	<u>2,640</u>
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(4,079)</u>	<u>1,622</u>
Other comprehensive income for the Period, net of tax		<u>(4,079)</u>	<u>1,622</u>
Profit and total comprehensive income for the Period		<u>561</u>	<u>4,262</u>
Earnings per share	10		
Basic and diluted		<u>RMB0.004</u>	<u>RMB0.002</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>11</i>	414,542	431,785
Intangible assets		9,717	10,283
Prepayments for property, plant and equipment and intangible assets	<i>14</i>	63,769	63,769
Deferred tax assets		7,109	7,268
		<hr/>	<hr/>
Total non-current assets		495,137	513,105
Current assets			
Inventories	<i>12</i>	89,128	78,278
Trade and bills receivables	<i>13</i>	358,513	382,985
Deposits, prepayments and other receivables	<i>14</i>	200,040	100,105
Tax recoverables		2,115	–
Restricted cash	<i>15</i>	33,592	37,719
Cash and cash equivalents		35,056	69,389
		<hr/>	<hr/>
Total current assets		718,444	668,476
		<hr/>	<hr/>
Total assets		1,213,581	1,181,581
Current liabilities			
Trade and bills payables	<i>16</i>	190,412	170,518
Contract liabilities	<i>17</i>	28,754	19,421
Accruals, deposits received and other payables		44,278	50,469
Current tax liabilities		–	4,463
Bank and other borrowings	<i>18</i>	251,448	234,323
Lease liabilities		1,220	1,482
		<hr/>	<hr/>
Total current liabilities		516,112	480,676
		<hr/>	<hr/>
Net current assets		202,332	187,800
		<hr/>	<hr/>
Total assets less current liabilities		697,469	700,905
		<hr/>	<hr/>

		30 June	31 December
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Bank and other borrowings	18	100,826	104,358
Deferred tax liabilities		25,537	25,477
Lease liabilities		133	658
		<hr/>	<hr/>
Total non-current liabilities		126,496	130,493
		<hr/>	<hr/>
Total liabilities		642,608	611,169
		<hr/>	<hr/>
NET ASSETS		570,973	570,412
		<hr/>	<hr/>
EQUITY			
Share capital		9,361	9,361
Reserves		561,612	561,051
		<hr/>	<hr/>
TOTAL EQUITY		570,973	570,412
		<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 Main Board of 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 headquarters and principal place of business is located at the People’s Republic of China (the “**PRC**”). The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the “**Group**”) are production and sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products in the PRC.

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 2023.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the Period have neither been audited nor reviewed by the Company’s auditors, but have been reviewed by the Company’s audit committee, which have been prepared in accordance with HKAS 34, Interim Financial Reporting. 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 2022 (the “**2022 Financial Statements**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3. ADOPTION OF NEW OR REVISED HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current period

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current period:

HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies
HKAS 8 (Amendments)	Definition of Accounting Estimates
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules

The application of the amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and position for the current and prior period 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 2022 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 2023 (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>58,984</u>	<u>169,941</u>	<u>41,553</u>	<u>270,478</u>
Reportable segment profit	<u>571</u>	<u>19,134</u>	<u>12,614</u>	<u>32,319</u>

	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>

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Segment results	32,319	26,235
Other income	2,033	381
Unallocated expenses	(18,582)	(15,555)
Finance costs	(9,631)	(7,898)
	<u>6,139</u>	<u>3,163</u>
Income tax expense	(1,499)	(523)
Profit after taxation	<u>4,640</u>	<u>2,640</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income and others	282	213
Government grants	500	–
Gains on sale of scrap materials	726	168
Others	525	–
	<u>2,033</u>	<u>381</u>

7. **FINANCE COSTS**

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charge on bank and other borrowings	9,588	7,857
Interest charge on lease liabilities	43	41
	<u>9,631</u>	<u>7,898</u>

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	214,381	193,509
Research and development expenditure	2,452	3,113
Depreciation of property, plant and equipment	20,061	13,256
Depreciation of right-of-use asset	956	916
Amortisation of intangible assets	566	–
Short-term lease	1,727	991
Interest charge on lease liabilities	43	41
Expected credit losses on financial assets	485	647
	<hr/>	<hr/>
Staff costs (including directors' emoluments):		
– Salaries and wages	21,982	19,242
– Defined contribution scheme	3,541	3,324
	<hr/>	<hr/>
	25,523	22,566

9. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC Enterprise Income Tax (the “EIT”)	1,279	610
Deferred income tax (credit)/charge to profit or loss for the Period	220	(87)
	<hr/>	<hr/>
Income tax expenses	1,499	523

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).

No provision for income tax in the Cayman Islands and the British Virgin Islands (the “BVI”) has been made as the Company’s subsidiaries had no assessable income in these jurisdictions during the year (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 EIT rate of the Company’s PRC subsidiaries is 25% (the Last Period: 25%) except as described below. Provision for the 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, was approved to be a high and new technology enterprise (“**HNTE**”) and is entitled to a preferential income tax rate of 15% (the Last Period: 15%) for the year according to the PRC tax law, as it was awarded high-technology status by tax authority with a validity period of three years expiring in 2025. The HNTE certificate needs to be renewed every three years so as to enable Putian Cable Group Co., Ltd. to enjoy the reduced tax rate and additional 100% (the Last Period: 100%) tax deduction (“**Tax Deduction**”) based on the eligible research and development expenses.

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 RMB4,640,000 (the Last Period: approximately RMB2,640,000) 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	
	2023	2022
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	<u>0.004</u>	<u>0.002</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 2023	431,785
Additions	3,774
Depreciation	<u>(21,017)</u>
Net book value as at 30 June 2023	<u>414,542</u>

	Audited <i>RMB'000</i>
Net book value as at 1 January 2022	455,736
Additions	9,905
Depreciation	<u>(33,856)</u>
Net book value as at 31 December 2022	<u>431,785</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 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Raw materials	21,320	38,198
Finished goods	<u>67,808</u>	<u>40,080</u>
	<u>89,128</u>	<u>78,278</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2023 <i>RMB'000</i> (Unaudited)	31 December 2022 <i>RMB'000</i> (Audited)
Trade receivables	359,598	386,500
Bills receivables (<i>Note (i)</i>)	<u>6,962</u>	<u>4,047</u>
	366,560	390,547
Less: Loss allowances	<u>(8,047)</u>	<u>(7,562)</u>
	<u>358,513</u>	<u>382,985</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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	118,476	94,514
More than 1 month but within 2 months	–	80,889
More than 2 months but within 3 months	26,200	39,488
More than 3 months but within 6 months	44,043	99,904
More than 6 months but within 1 year	121,722	55,079
More than 1 year	48,072	13,111
	<u>358,513</u>	<u>382,985</u>

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

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
<i>Current</i>		
Deposits	33,250	33,697
Prepayments to suppliers	134,935	41,550
Prepayments	7,002	4,335
Valued added tax receivables	16,255	15,811
Other receivables	8,598	4,712
	<u>200,040</u>	<u>100,105</u>
<i>Non-current</i>		
Prepayments for property, plant and equipment and intangible assets (<i>Note</i>)	<u>63,769</u>	<u>63,769</u>

Note:

As at 30 June 2023, the Group made certain prepayments to certain independent third parties for purchases of equipment of an optical fiber production line (31 December 2022: for purchases of equipment of an optical fiber production line). As at 30 June 2023, the relevant capital commitment for the new phase of production line is disclosed in Note 19.

15. 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.

16. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	113,354	83,579
Bills payables	<u>77,058</u>	<u>86,939</u>
	<u>190,412</u>	<u>170,518</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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	46,072	60,218
More than 1 month but within 2 months	30,288	14,543
More than 2 months but within 3 months	13,832	42,026
More than 3 months but within 6 months	37,183	30,031
More than 6 months but within 1 year	58,669	21,817
More than 1 year	<u>4,368</u>	<u>1,883</u>
	<u>190,412</u>	<u>170,518</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.

17. CONTRACT LIABILITIES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Contract liabilities arising from:		
Sale of goods	<u>28,754</u>	<u>19,421</u>
	<u>28,754</u>	<u>19,421</u>
		RMB'000
Balance as at 1 January 2023		19,421
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		(19,421)
Increase in contract liabilities as a result of billing in advance of sales of goods		<u>28,754</u>
Balance as at 30 June 2023		<u>28,754</u>

18. BANK AND OTHER BORROWINGS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Bank borrowings – Secured (Notes (i), (ii) and (iv)):		
Secured by the property, plant and equipment, and prepayments of the Group	119,000	64,400
Secured by the properties owned by the controlling shareholders and their associates	10,000	20,000
Secured jointly by the property, plant and equipment, and trade receivables of the Group and the controlling shareholders	103,000	111,000
Secured by personal guarantee (Note (iii))	68,600	70,000
Secured by personal bank balances of the controlling shareholder	<u>9,500</u>	<u>9,500</u>
	<u>310,100</u>	<u>274,900</u>

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Other borrowings – Secured (Notes (i) and (iv)):		
Secured by the Group’s property, plant and equipment (Note (ii))	16,674	30,781
Secured by the Company’s certain shareholding in its two PRC subsidiaries	<u>25,500</u>	<u>33,000</u>
	<u>42,174</u>	<u>63,781</u>
	352,274	338,681
Less: amount classified as non-current liabilities	<u>(100,826)</u>	<u>(104,358)</u>
Current liabilities	<u>251,448</u>	<u>234,323</u>
Borrowings fall due:		
– Within one year	251,448	234,323
– Between one and two years	13,826	63,066
– Between two to five years	36,000	15,984
– Over five years	<u>51,000</u>	<u>25,308</u>
Total bank and other borrowings	<u>352,274</u>	<u>338,681</u>

Notes:

- (i) Bank borrowings of approximately RMB142,000,000 (31 December 2022: RMB101,400,000), bearing variable interests at the bank’s loan prime rate plus a premium. The effective interest rates of these borrowings are 5.00% to 5.70% (31 December 2022: 5.00% to 5.65%) per annum as at 30 June 2023.

Bank borrowings of approximately RMB168,100,000 (31 December 2022: RMB173,500,000), bearing interest at fixed rates, ranging from 4.22% to 5.65% (31 December 2022: 4.22% to 5.66%) per annum as at 30 June 2023.

Other borrowings bear interests at fixed rates, ranging from 0.00% to 4.75% (31 December 2022: 0.00% to 8.41%) per annum as at 30 June 2023. The weighted average effective interest rate on these borrowings is 4.65% (31 December 2022: 5.56%) per annum as at 30 June 2023.

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Property, plant and equipment		
– Land and buildings	198,014	203,421
– Machinery	48,583	67,472
Trade receivables	87,175	–
Prepayments for property, plant and equipment and intangible assets	63,769	–
Bank deposits	33,592	37,719
	<u>431,133</u>	<u>308,612</u>

- (iii) As at 30 June 2023 and 31 December 2022, 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 other borrowers and the amounts utilised by the Group at 30 June 2023 and 31 December 2022 is set out as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Amounts granted	389,600	402,281
Amounts utilised	352,274	338,681

19. CAPITAL COMMITMENTS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (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	46,583	39,916

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded a revenue of approximately RMB270.5 million for the Period which represented an increase of approximately 10.5% as compared with the one for the Last Period. The Group has realised a gross profit of approximately RMB56.1 million for the Period, which represented an increase of approximately 9.6% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB4.6 million, which represented an increase of approximately 76.9% as compared with the one for the Last Period.

Sale of communication copper cables increased by approximately 67.1% to approximately RMB169.9 million (the Last Period: approximately RMB101.7 million) while the sale of optical fibers and optical fiber cables decreased by approximately 33.8% to approximately RMB59.0 million (the Last Period: approximately RMB89.1 million) and the sale of structured cabling system products decreased by approximately 22.8% to approximately RMB41.6 million (the Last Period: approximately RMB53.9 million).

PERFORMANCE REVIEW

In the first half of 2023, the domestic economy was still recovering. On the basis of maintaining stable cooperation with the three major telecommunication operators in China, the Company expanded the in-depth cooperation with China Railway Group and China Railway Construction, leading to an increase in overall performance. Adhering to the principle of steady development, the Group tightened credit policy and strengthened customer selection, which caused a decrease in the performance of optical fibers, optical fiber cables and structured cabling system business. Nevertheless, communication cables business experienced rapid growth thanks to the cooperation with China Mobile for a second time. Specifically, the Company won the bid with a 17.54% share in the centralized procurement of data cables of China Mobile from 2022 to 2024, ranking second, which laid a solid foundation for the growth of the Company's communication copper cables business. Meanwhile, leveraging on the outstanding performance in the research, development and production of intelligent link products of communications industry, in July 2023, Putian Cable was rated as the specialized and new "little giant" firm at the national level by the Ministry of Industry and Information Technology of the People's Republic of China (the "MIIT"), which greatly enhanced its core competitiveness in the market.

OUTLOOK, INDUSTRY LANDSCAPE AND TRENDS

On 25 May 2023, fourteen departments including the MIIT jointly issued the *Implementation Opinions on Further Deepening the Telecommunication Infrastructure Co-development and Sharing to Promote the High-Quality Development of “Dual Gigabit” Networks*, which proposed that, by 2025, the telecommunication infrastructure co-development and sharing working mechanism will be constantly improved, the environment for the construction of “Dual Gigabit” networks will be further optimized, and positive progress will be made in combing rural poles and wires. On 17 July 2023, the State Council Information Office of the People’s Republic of China announced that in the first half of 2023, China’s investment in new infrastructure construction increased by 16.2% year-on-year. Among them, the investment in 5G, data centers and other information-based new infrastructure increased by 13.1%; industry supply and demand patterns continue to improve.

DEVELOPMENT PLAN

The Group plans to complete the extension of the second phase of the “new-dispersive single-mode optical fiber and optical cable production line” by the end of 2023 to increase the annual production capacity of optical fibre to 10 million core kilometers, which will fully demonstrate the advantage in large-scale cost of optical fiber and cable products, so as to enhance the profitability of this business segment.

At the same time, the Group has expanded its presence to the data center business segment and continued to advance the technological innovation and application promotion of products such as optical fibers and optical fiber cables, data cables, specialized cables and optoelectronic hybrid cables with high-frequency, high-speed and high-density, in a bid to comprehensively promote the implementation of the differentiation strategy for market channels.

In addition, the Group will continue to expand its business globally. By participating in representative international communication exhibitions in countries in Asia, Europe and other regions, the Group aims to advance its internationalization level and master the development trends and changes of the global market, so as to make a rapid response to international market demand and obtain more cooperation and development opportunities.

At last, the Group will closely monitor market trends and advancements in communication industry product technologies. By constantly increasing investment in research and development for more quality communication products with advanced technology, the Company strives to build a healthy development structure in both horizontal and vertical industrial chains gradually, thus maintaining its competitive advantage in the market.

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 increased by approximately 10.5% from approximately RMB244.7 million for the Last Period to approximately RMB270.5 million for the Period. Revenue generated from sale of communication copper cables increased by approximately 67.1% to approximately RMB169.9 million (the Last Period: approximately RMB101.7 million) while revenue generated from sale of optical fibers and optical fiber cables decreased by approximately 33.8% to approximately RMB59.0 million (the Last Period: approximately RMB89.1 million); and revenue generated from sale of structured cabling system products decreased by approximately 22.8% to approximately RMB41.6 million (the Last Period: approximately RMB53.9 million).

Gross profit and margin

Gross profit increased by approximately 9.6% to approximately RMB56.1 million for the Period from approximately RMB51.2 million for the Last Period, while the Group's gross profit margin dropped to approximately 20.7% for the Period as compared to the one of approximately 20.9% for the Last Period.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 2.3% from approximately RMB21.8 million for the Last Period to approximately RMB21.3 million for the Period, primarily due to the decrease in entertainment expenses.

Administrative expenses

Administrative expenses increased by approximately 13.9% from approximately RMB18.0 million for the Last Period to approximately RMB20.5 million for the Period, primarily due to the increase in staff costs.

Finance costs

Finance costs increased by approximately 21.5% from approximately RMB7.9 million for the Last Period to approximately RMB9.6 million for the Period primarily due to more borrowings have incurred for the Period.

Income tax expense

Income tax expense increased by approximately 200% from approximately RMB0.5 million for the Last Period to approximately RMB1.5 million for the Period, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 24.4% for the Period and approximately 16.5% for the Last Period.

Profit for the Period

As a result of the foregoing, profit for the Period increased by approximately 76.9% from approximately RMB2.6 million for the Last Period to approximately RMB4.6 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 2023, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB68.6 million (31 December 2022: approximately RMB107.1 million), representing a decrease of approximately 35.9% as compared to that as at 31 December 2022.

BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

As at 30 June 2023, the Group had bank and other borrowings of approximately RMB352.3 million (31 December 2022: approximately RMB338.7 million), which were secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. RMB251.4 million out of the bank and other borrowings are repayable within one year.

Gearing ratio

As at 30 June 2023, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 1.12 (31 December 2022: approximately 1.07).

Total debt to total asset ratio

As at 30 June 2023, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total assets, was approximately 0.53 (31 December 2022: approximately 0.52).

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 monitors 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 rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. Certain bank and other borrowings of the Group as at 30 June 2023 bore interest at floating rates (31 December 2022 : same). The interest rates and repayment terms of bank and other borrowings are disclosed in Note 18 to the Interim Condensed Consolidated Financial Statements.

Credit risk

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and deposits, restricted cash and cash and cash equivalents. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low. It is not the Group's policy to request collateral from its other debtors.

The management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant for the period ended 30 June 2023 and the year ended 31 December 2022.

The credit risks on bank and restricted cash balances are considered to be insignificant because the counterparties are financial institutions with good reputation and high credit ratings assigned by international credit-rating agencies.

Trade receivables

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated 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 credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 30 June 2023, which amounted to approximately RMB100,900,000 (31 December 2022: RMB147,334,000), and accounted for approximately 28.1% (31 December 2022: 38.1%) 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 public financial information and credit quality of its customers to ensure that prompt actions will be taken to lower the exposure. The two largest customers of the Group are listed companies in the PRC and Hong Kong, and both of them have good past credit repayment history and records with the Group.

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.

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.

The Group measures expected credit losses for trade and bills receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. In measuring the expected credit losses, the trade and bills receivables have been assessed on a collective basis and debtors ageing is applied to assess expected credit losses for its customers because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. They have been grouped based on the days past due. The estimated ECL loss rates are estimated based on the Group's estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

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 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 2023, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB46.6 million (31 December 2022: approximately RMB39.9 million).

Major acquisition and disposals

The Group did not have any material acquisitions and disposals of its subsidiaries, joint ventures and associated companies for the Period.

Employees and remuneration policies

As at 30 June 2023, the Group had 602 employees (31 December 2022: 585 employees). For the Period, the Group incurred staff costs of approximately RMB25.5 million (the Last Period: RMB22.6 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

As at 30 June 2023, there were litigation claims initiated by the Group against various customers of the Group to demand immediate repayment of overdue trading debts in relation to sales of optical fiber cables, communication copper cables and structured cabling system products with an aggregate outstanding amounts (inclusive of interests and late penalty charges) of approximately RMB15,718,000. These litigation cases have been concluded/arbitrated/enforced to execute the repayments. As a result of the foregoing, the Group further recognised the expected credit losses on trade receivables from these customers of approximately RMB2,938,000 in the interim condensed consolidated financial statement for the period ended 30 June 2023.

SHARE OPTION SCHEME

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

For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information – 15. Share option scheme” in the prospectus 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 an audit committee (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 report, the Company has maintained sufficient public float throughout the Period as required under the Listing Rules.

AUDITOR

Moore Stephens CPA Limited (“**Moore**”) is currently the auditor of the Company. A resolution for the re-appointment of Moore as auditor of the Company has been approved at the annual general meeting of the Company held on 16 June 2023.

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 2023

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.