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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 2018**

FINANCIAL HIGHLIGHTS

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

- Total revenue increased by approximately 50.7% to approximately RMB372.0 million (the Last Period: approximately RMB246.9 million).
- Gross profit increased by approximately 45.8% to approximately RMB89.2 million (the Last Period: approximately RMB61.2 million).
- Gross profit margin slightly decreased by approximately 0.8% to approximately 24.0% (the Last Period: approximately 24.8%).
- Profit for the Period attributable to owners of the Company increased by approximately 130.7% to approximately RMB40.6 million (the Last Period: approximately RMB17.6 million).
- The Group's revenue generated from sale of optical fiber cables increased by approximately 91.3% to approximately RMB163.9 million (the Last Period: approximately RMB85.7 million); revenue generated from sale of structured cabling system products increased by approximately 57.0% to approximately RMB70.0 million (the Last Period: approximately RMB44.6 million); and revenue generated from sale of communication copper cables increased by approximately 18.4% to approximately RMB138.1 million (the Last Period: approximately RMB116.6 million).
- The Board did not recommend the payment of an interim dividend for the Period.

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 2018 (the “**Period**”), together with the comparative figures for the corresponding period in 2017 (the “**Last Period**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	371,976	246,946
Cost of sales		<u>(282,793)</u>	<u>(185,703)</u>
Gross profit		89,183	61,243
Other income	5	1,710	122
Selling and distribution expenses		(14,115)	(9,850)
Administrative expenses		(22,869)	(26,288)
Finance costs	6	<u>(3,597)</u>	<u>(1,237)</u>
Profit before income tax expense	7	50,312	23,990
Income tax expense	8	<u>(9,673)</u>	<u>(6,389)</u>
Profit for the period		<u>40,639</u>	<u>17,601</u>
Profit for the period attributable to owners of the Company		<u>40,639</u>	<u>17,601</u>
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(1,883)</u>	<u>194</u>
Other comprehensive income for the period, net of tax		<u>(1,883)</u>	<u>194</u>
Profit and total comprehensive income for the period		<u>38,756</u>	<u>17,795</u>
Earnings per share	9		
Basic and diluted		<u>RMB0.037</u>	<u>RMB0.022</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	140,259	106,940
Prepaid land lease payment		11,894	12,038
		152,153	118,978
Current assets			
Prepaid land lease payment		289	289
Inventories	11	94,339	72,868
Trade and bills receivables	12	198,298	171,779
Deposits, prepayment and other receivables	13	57,392	11,539
Restricted cash		10,003	50
Cash and cash equivalents		15,529	108,583
		375,850	365,108
Current liabilities			
Trade and bills payables	14	65,097	22,383
Accruals, deposits received and other payables		5,931	15,186
Provision for taxation		3,298	3,139
Bank and other borrowings	15	83,773	61,834
		158,099	102,542
Net current assets		217,751	262,566
Total assets less current liabilities		369,904	381,544

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liability			
Other borrowings	15	–	51,732
Deferred tax liability		<u>7,699</u>	<u>6,363</u>
		<u>7,699</u>	<u>58,095</u>
Net Assets		<u>362,205</u>	<u>323,449</u>
EQUITY			
Share capital		9,361	9,361
Reserves		<u>352,844</u>	<u>314,088</u>
Total Equity		<u>362,205</u>	<u>323,449</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT

1. BASIS OF PREPARATION

This interim condensed consolidated financial statement for the Period has neither been audited nor reviewed by the Company's auditors, but has been reviewed by the Company's audit committee, which has been prepared in accordance with HKAS 34, Interim Financial Reporting issued by Hong Kong Institute of Certified Public Accountants. This interim condensed consolidated financial statement should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017 (the "2017 Financial Statements"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the 2017 Financial Statement except for the adoption of amendments to HKFRSs effective for the financial year beginning from 1 January 2018 as described below.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as further explained below, adoption of these revised HKFRSs and HKASs did not have any material effect on the financial position of the Group for the current or prior accounting period which have been prepared and presented.

(a) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

To determine the classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The HKAS 39 measurement categories of cash and bank balances, restricted bank balances, trade and bills receivables and financial assets included in prepayments, deposits and other receivables have been replaced by debt instruments at amortised cost under HKFRS 9.

The accounting for financial liabilities remains largely the same as it was under HKAS 39.

Impairment

The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and bills receivables. The Group applies the general approach and record twelve months expected losses on its financial assets included in prepayments, deposits and other receivables.

The application of HKFRS 9 in the Period has had no material impact on the amounts and/or disclosures reported in this interim condensed consolidated financial statement. Hedge accounting is not applicable to the Group.

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's interim condensed consolidated financial statement.

All the other amendments and interpretations applied for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statement of the Group.

3. ESTIMATES

The preparation of the interim condensed consolidated financial statement 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 statement, 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 2017 Financial Statements.

4. SEGMENT INFORMATION

	Six months ended 30 June 2018 (Unaudited)			
	Optical fiber cables <i>RMB'000</i>	Communication copper cables <i>RMB'000</i>	Structured	Total <i>RMB'000</i>
			cabling system	
			products <i>RMB'000</i>	
Revenue from the Group's external customers	166,966	165,361	71,162	403,489
Inter-segment revenue	<u>(3,056)</u>	<u>(27,259)</u>	<u>(1,198)</u>	<u>(31,513)</u>
Reportable segment revenue	<u>163,910</u>	<u>138,102</u>	<u>69,964</u>	<u>371,976</u>
Reportable segment profit	<u>24,292</u>	<u>15,498</u>	<u>20,836</u>	<u>60,626</u>

	Six months ended 30 June 2017 (Unaudited)			
	Optical fiber cables <i>RMB'000</i>	Communication copper cables <i>RMB'000</i>	Structured	Total <i>RMB'000</i>
			cabling system	
			products <i>RMB'000</i>	
Revenue from the Group's external customers	87,314	123,532	45,293	256,139
Inter-segment revenue	<u>(1,572)</u>	<u>(6,901)</u>	<u>(720)</u>	<u>(9,193)</u>
Reportable segment revenue	<u>85,742</u>	<u>116,631</u>	<u>44,573</u>	<u>246,946</u>
Reportable segment profit	<u>15,599</u>	<u>12,996</u>	<u>13,391</u>	<u>41,986</u>

(i) Reconciliation of reportable segment results to consolidated profit after taxation:

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Segment results	60,626	41,986
Other income	1,710	122
Unallocated expenses	(8,427)	(16,881)
Finance costs	(3,597)	(1,237)
	<hr/>	<hr/>
Income tax expense	(9,673)	(6,389)
	<hr/>	<hr/>
Profit after taxation	40,639	17,601

(ii) Geographic information

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

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Other income:		
Bank interest income	72	44
Exchange gain, net	3	–
Gains on sale of scrap materials	1,635	78
	<hr/>	<hr/>
	1,710	122

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest charge on bank borrowings	3,597	1,242
Less: Amount capitalised (<i>Note</i>)	—	(5)
	<u>3,597</u>	<u>1,237</u>

Note: Borrowing costs capitalised during the Last Period arose on the general borrowing pool and were calculated by applying a capitalisation rate of 6.32% to expenditure on qualifying assets.

No borrowing costs were capitalised since April 2017. The construction in progress incurred during the Period was primarily financed by the IPO proceed and self-generated fund from the operation.

7. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of prepaid land lease payment (<i>Note</i>)	144	144
Cost of inventories recognised as expenses	256,955	167,469
Research and development expenditure	13,197	8,457
Depreciation of property, plant and equipment	5,839	4,910
Operating lease rental in respect of:		
– Rented premises	759	570
Listing expenses	<u>—</u>	<u>11,279</u>
Staff costs (including directors' emoluments):		
– Salaries and wages	14,574	9,762
– Defined contribution scheme	<u>2,436</u>	<u>1,530</u>
	<u>17,010</u>	<u>11,292</u>

Note: Amortisation of prepaid land lease payment for the period then ended was included in “Administrative expenses” on the face of the condensed consolidated statements of comprehensive income.

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC EIT	8,336	5,459
Deferred income tax charge to profit or loss for the period	1,337	930
	<hr/>	<hr/>
Income tax expenses	9,673	6,389
	<hr/>	<hr/>

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

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

Provision for the PRC Enterprise Income Tax (“**EIT**”) for the period then ended was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

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

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB40,639,000 (the Last Period: approximately RMB17,601,000) and the weighted average of 1,100,000,000 shares (the Last Period: 820,305,160 shares) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2018	2017
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	0.037	0.022
	<hr/>	<hr/>
Number of share		
Weighted average number of ordinary shares		
for the purposes of basic and diluted earnings per share	1,100,000,000	820,305,160
	<hr/>	<hr/>

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.

10. PROPERTY, PLANT AND EQUIPMENT

	Audited <i>RMB'000</i>
Net book value as at 1 January 2017	98,384
Additions	20,283
Disposals	(710)
Depreciation	<u>(11,017)</u>
Net book value as at 31 December 2017	<u>106,940</u>
	Unaudited <i>RMB'000</i>
Net book value as at 1 January 2018	106,940
Additions	39,158
Disposals	–
Depreciation	<u>(5,839)</u>
Net book value as at 30 June 2018	<u>140,259</u>

11. INVENTORIES

	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Raw materials	30,320	24,332
Finished goods	<u>64,019</u>	<u>48,536</u>
	<u>94,339</u>	<u>72,868</u>

12. TRADE AND BILLS RECEIVABLES

	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Trade receivables	198,298	171,724
Bills receivables (<i>Note</i>)	<u>–</u>	<u>55</u>
	<u>198,298</u>	<u>171,779</u>

Note: Bills receivable represented outstanding commercial acceptance bills.

The ageing analysis of trade and bills receivables (net of impairments) as at the end of each reporting period based on invoice date is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0 – 30 days	78,374	62,679
31 – 60 days	63,825	58,586
61 – 90 days	31,586	25,577
91 – 180 days	22,070	20,976
181 – 365 days	2,292	3,961
> 365 days	151	–
	198,298	171,779

The Group has a policy of granting trade customers with credit terms of generally 180-360 days. The ageing analysis of the Group's trade and bills receivables that are neither individually nor collectively considered to be impaired, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Neither past due nor impaired	198,147	171,779
Past due for less than 1 year	151	–
Past due for over 1 year but less than 2 years	–	–
Past due for over 2 years	–	–
	198,298	171,779

Trade and bills receivables of approximately RMB151,000 (2017: Nil) were past due but not impaired as at 30 June 2018. The balances related to the customers have no recent history of default. In general, the Group does not hold any collateral or other credit enhancements over these balances.

13. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

As at 30 June 2018, deposits, prepayment and other receivables mainly included amounts of approximately RMB51,085,000 prepaid for the acquisition of property, plant and equipment (31 December 2017: Nil).

14. TRADE AND BILLS PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables	51,880	22,383
Bills payables	13,217	–
	<u>65,097</u>	<u>22,383</u>

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally ranging from 30 days to 60 days, and bills payables maturity period is normally within 180 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade and bills payables as at the end of each reporting period is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0 – 30 days	39,831	21,652
31 – 60 days	6,841	417
61 – 90 days	6,242	177
91 – 180 days	12,177	39
181 – 365 days	6	55
> 365 days	–	43
	<u>65,097</u>	<u>22,383</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.

Credit period granted by trade creditors is normally 30 days to 60 days, and bills payables maturity period is normally within 180 days. The following is an analysis of trade and bills payables by age based on due date.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Neither past due	65,097	22,181
Overdue for less than 1 year	–	202
	<u>65,097</u>	<u>22,383</u>

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

15. BANK AND OTHER BORROWINGS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Current		
Secured bank borrowings ^{(i) (ii)}	30,000	61,834
Other borrowings ⁽ⁱⁱⁱ⁾	53,773	–
	83,773	61,834
Non-current		
Other borrowings ⁽ⁱⁱⁱ⁾	–	51,732

- (i) The bank borrowings with effective interest rate is 5.71% (2017: 6.32%) per annum.
- (ii) The bank borrowings of RMB25 million (31 December 2017: Nil) was secured over the personal properties owned by the Group's substantial shareholders and their associates.
- (iii) The Group entered into two loan agreements with independent third parties on 29 July 2017, with the total loan in a principal amount of RMB50.0 million with a fixed interest rate of 8.16% per annum and the Group shall repay the loans in one instalment and pay the accrued interest on the maturity date, 30 June 2019. The interest started to accrue on 31 July 2017, the date on which the Group received the proceeds of the loans. Under both loan agreements, the Group undertakes that it shall not change the use of the loan proceeds without creditors' prior approval and guarantees that the loan is unsecured and senior in right of payment to all other unsecured creditors of the Group immediately after the disposal of the secured assets in the event of cross default.

The Group's total current and non-current of bank and other borrowings are repayable as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
On demand or within one year	83,773	61,834
More than one year, but not exceeding two years	–	51,732
	83,773	113,566

Notes:

- (i) The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.
- (ii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the Company's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Company's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Company has complied with the covenants and met the scheduled repayment obligations.
- (iii) The Company regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has accomplished good financial results for the Period. It recorded a revenue of approximately RMB372.0 million which represented a growth of approximately 50.7% as compared with the one for the Last Period. The Group has realized a gross profit of approximately RMB89.2 million for the Period, which represented a growth of approximately 45.8% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB40.6 million, which represented a growth of approximately 130.7% as compared with the one for the Last Period.

The significant increase in revenue was mainly attributable to the sale of optical fiber cables which was increased by approximately 91.3% to approximately RMB163.9 million (the Last Period: approximately RMB85.7 million) and the sale of structured cabling system products which was increased by approximately 57.0% to approximately RMB70.0 million (the Last Period: approximately RMB44.6 million). In July 2017, the Group has completed the construction of the first phase of its second production site, Yaohu Factory and then commenced the operation of four new production lines for optical fiber cables. The Group's aggregate annual production capacity for optical fiber cables has been significantly enlarged by 3.7 times to approximately 5.6 million fkm. Supported by the enlarged capacity, the Group is able to compete for large tenders and has obtained more orders from the major telecommunications network operators in the PRC.

In June 2017, the Group has been selected by one of its major customers as one of their optical fiber cable suppliers in 2017-2018 under their centralised procurement. According to the tender award confirmation, the total sales amount of optical fiber cables in 2017-2018 will amount to approximately RMB330.0 million. This tender has contributed approximately RMB101.5 million of sale of optical fiber cables for 2017 and is expected to contribute approximately RMB228.5 million for 2018.

It is expected that the market demand for optical fiber cables in the PRC will continue to increase as a result of the favorable government policy. To achieve continuous business growth, the Group intends to increase market share through strengthening its relationships with key customers, in particular major telecommunications network operators in the PRC, and increasing penetration of its products through continuous upgrading and development of new products.

The Group is devoted to expanding its non-operator customers base and penetrating into its structured cabling system products business. It has sales representatives in 24 cities nationwide targeting a broad range of communication system solution providers and construction contractors in the PRC for its structured cabling system products. In addition, the Group also organises various seminars and conferences from time to time to promote its brand awareness so as to increase its market share. Such strategy has been proved to be successful and led the Group to a robust growth in its structured cabling system products business for the Period.

In respect of the copper communication cable business, given the decreasing demand and stringent safety and environmental standards requirements, we note that large number of smaller communication copper cable manufacturers have been washed out and their market shares have been taken up by remaining manufacturers who have stronger capital and technical capacities. The Group has been benefited from this trend during the Period. Its revenue generated from sale of communication copper cables increased by approximately 18.4% from approximately RMB116.6 million for the Last Period to approximately RMB138.1 million for the Period. The proportion of revenue contributed by the sales of communication copper cable decreased from approximately 47.2% for the Last Period to approximately 37.1% for the Period as the Group has allocated more resources to expand its business in optical fiber cable segment and structured cabling systems products segment and has successfully recorded a rapid growth in these two segments for the Period.

OUTLOOK

Following the “Broadband China” Strategic Implementation Plan and “Internet Plus” (“互聯網+”) initiative widely carried out in the PRC, major telecom operators have announced their 5G construction and commercial plans. In early 2018, China Mobile and China Telecom successfully declared the National 5G Scale Network Construction and Application Demonstration Project (“國家5G規模組網建設及應用示範工程”) to the National Development and Reform Commission (“國家發展及改革委員會”) and confirmed to carry out the 5G application demonstration in Chongqing and other cities. On 25 April 2018, China Unicom officially announced to launch a 5G network pilot run in 16 major cities in China and expect a scalable commercialization could be achieved in 2020. The development of 5G network in the PRC is expected to stimulate substantial investment in the construction of communications infrastructure. We expect the demand for optical fibers and optical fibers cables remains strong and anticipate a rapid growth in the communication cable industry in the coming years.

To capture the business opportunities and achieve a sustainable competitive advantage, we will further strengthen and improve the Group’s market position in the value chain of optical fiber cable production through the following strategies:

- increasing market shares in optical fiber cables through enhancing and further strengthening production capacity;
- continuing to build and maintain customer relationships;
- refining the product mix by focusing on the segments with high growth potential and profit margins;
- expanding the Group’s business into the production of optical fibers through backward vertical integration; and
- expanding the product offerings and strengthening the Group’s research and development capabilities.

During the Period, the Group has entered into (i) two equipment acquisition contracts with a PRC manufacturer (the “**Manufacturer**”) pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the optical fiber production facilities at a total consideration of approximately RMB60.9 million; and (ii) a technology agreement pursuant to which the Manufacturer agreed to provide services and technical support to the Group for the setting up of an optical fiber factory at a total service fee of RMB12.0 million. Through backward expansion to optical fiber production, we expect that this will stabilise the raw material supply which will in turn better control the production cost and further enhance the gross profit margin of the Group.

The Board would from time to time identify suitable investment opportunities through merger and acquisitions to enhance the value of the Group.

FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fiber cables, communication copper cables and structured cabling system products, which are three reportable segments. Revenue of the Group increased by approximately 50.7% from approximately RMB246.9 million for the Last Period to approximately RMB372.0 million for the Period. Among which, revenue derived from sale of optical fiber cables increased by approximately 91.3% from approximately RMB85.7 million for the Last Period to approximately RMB163.9 million for the Period; revenue derived from sale of structured cabling system products increased by approximately 57.0% from approximately RMB44.6 million for the Last Period to approximately RMB70.0 million for the Period; and revenue derived from sale of communication copper cables increased by approximately 18.4% from approximately RMB116.6 million for the Last Period to approximately RMB138.1 million for the Period.

Gross profit and margin

Gross profit increased by approximately 45.8% to approximately RMB89.2 million for the Period from approximately RMB61.2 million for the Last Period, while the Group’s gross profit margin was approximately 24.0% for the Period as compared to the one of approximately 24.8% for the Last Period. The slight decrease in gross profit margin was primarily because a larger portion of revenue was generated from optical fiber cables which have a profit margin in the middle range of the Group’s entire products.

Other income

Other income increased by approximately 13 times from approximately RMB122,000 for the Last Period to approximately RMB1,710,000 for the Period, primarily due to gain in sale of scrap materials.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 42.4% from approximately RMB9.9 million for the Last Period to approximately RMB14.1 million for the Period, primarily due to (i) an increase of approximately RMB2.0 million in transportation fees as a result of the increase in customer orders; and (ii) an increase of approximately RMB1.0 million in salaries and welfare expenses for the selling and marketing staff, reflecting the Group's strengthened marketing efforts. Selling expenses as a percentage of the revenue remained stable, which was approximately 3.8% for the Period as compared to the one of approximately 4.0% for the Last Period.

Administrative expenses

Administrative expenses decreased by approximately 12.9% from approximately RMB26.3 million for the Last Period to approximately RMB22.9 million for the Period, primarily due to the combined effects of (i) a decrease of approximately RMB11.3 million in listing fee in connection with the Listing, (ii) an increase of approximately RMB1.3 million in salaries and welfare expenses as a result of more administrative personnel employed and the increased average salaries; and (iii) an increase of approximately RMB4.7 million in research and development expenses from approximately RMB8.5 million for the Last Period to approximately RMB13.2 million for the Period as the Group put strengthened efforts on researching project in developing new type of products and improving the Group's production efficiency. Research and development expenses as a percentage of the Group's total revenue remained stable, which was approximately 3.6% for the Period as compared to approximately 3.4% for the Last Period.

Finance costs

Finance costs increased by approximately 2.0 times from approximately RMB1.2 million for the Last Period to approximately RMB3.6 million for the Period primarily due to the borrowings of RMB50.0 million from independent third parties (the “**Other Borrowing**”) to repay the amount due to controlling shareholders resulting from the reorganisation for the Listing. Other Borrowing has commenced since July 2017 and will expire on 30 June 2019.

Income tax expense

Income tax expense increased by approximately 51.6% from approximately RMB6.4 million for the Last Period to approximately RMB9.7 million for the Period, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 19.2% for the Period and approximately 26.6% for the Last Period. A higher effective tax rate was recorded for the Last Period because a significant portion of the listing fee incurred in the Last Period was not subject to income tax deduction.

Profit for the Period

As a result of the foregoing, profit for the Period increased by approximately 130.7% from approximately RMB17.6 million for the Last Period to approximately RMB40.6 million for the Period.

Particulars of the Group's segment information are set out in note 4 to the Condensed Consolidated Financial Statement.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2018, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB25.5 million (31 December 2017: approximately RMB108.6 million), representing a decrease of approximately 76.5% as compared to that as at 31 December 2017. It was primarily due to that the proceed from the Listing retained as of 31 December 2017 was substantially utilised during the Period in accordingly to the plan of the use of proceed as disclosed in the Prospectus of the Company dated 27 October 2017 (the "**Prospectus**").

Borrowings and charges on the Group's assets

As at 30 June 2018, the Group had bank borrowings of approximately RMB30.0 million. Out of which, RMB25 million was secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. All bank borrowings are repayable within one year.

As at 31 December 2017, the Group had bank borrowings of approximately RMB61.8 million which were secured by legal charge over the properties of the Group and the corporate guarantees from the Group. All bank borrowings are repayable within one year.

In addition to bank borrowings, on 29 July 2017, the Group obtained loans from independent third parties in an amount of RMB50.0 million to repay the amount due to controlling shareholders resulting from the reorganisation of the Listing. The fixed interest rate of the loans is 8.16% per annum and the Group shall repay the loan in one installment and pay the accrued interest on the maturity date of 30 June 2019.

Gearing ratio

As at 30 June 2018, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.46 (31 December 2017: approximately 0.50).

Currency risk

While the Group's operations are principally in the PRC during the Period and it mainly conducts sales and incurs production costs and expenses in RMB, the Group has bank balances denominated in foreign currencies of Hong Kong dollar and US dollar. The Group does not use any derivative contracts to hedge against its exposure to currency risk. However, the Directors manage the Group's foreign currency risk by closely monitoring the movement of the foreign currency rates.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities, mainly bank balances and bank borrowings which carried/bore prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the Group's consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The credit risk for restricted bank balances and bank balances is minimal as such amounts are placed in banks with good reputation.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

Capital Commitments

As at 30 June 2018, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB36.5 million (31 December 2017: approximately RMB1.4 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 2018, the Group had approximately 409 employees (31 December 2017: approximately 375 employees). For the Period, the Group incurred staff costs of approximately RMB17.0 million (the Last Period: RMB11.3 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.

Future plans for material investments

On 3 January 2018, the Group entered into the equipment acquisition contract with the Manufacturer pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the optical fiber production facilities at a total consideration of approximately RMB45.1 million. Subsequently, on 19 January 2018, the Group entered into with the Manufacturer (i) another equipment acquisition contract pursuant to which the Manufacturer agreed to sell and the Group agreed to purchase the additional optical fiber production facilities at a total consideration of approximately RMB15.8 million; and (ii) the technology agreement pursuant to which the Manufacturer agreed to provide services and technical support to the Group for the setting up of an optical fiber factory at a total service fee of RMB12.0 million. These investments were funded by internal resources, external equity financing and/or borrowings and net proceeds from the Share Offering. The Group will continue to invest in its development projects and acquire suitable plant and machinery in accordance to the plan as disclosed in the Prospectus. The investments will be funded by internal resources, external equity financing and/or borrowings. Save as disclosed in the Prospectus and in this announcement, the Group did not have any future plans for material investments as at the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend to shareholders of the Company for the Period.

USE OF PROCEEDS FROM THE SHARE OFFERING

On 9 November 2017, the Company issued 275,000,000 shares at an offer price of HK\$0.66 per share through an initial public offering (the “**Share Offering**”). Upon completion of the Share Offering, the amount of net proceeds, after deducting the underwriting fees and expenses payable by the Company in connection with the Share offering, is approximately HK\$146.7 million (equivalent to approximately RMB124.5 million).

As at 30 June 2018, approximately RMB121.6 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	Actual utilised amount as at 30 June 2018	Unutilised amount as at 30 June 2018
	<i>%</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
For the upstream vertical expansion into the optical fiber production	46.0%	57.3	56.8	0.5
For the settlement of partial payment for the four new optical fiber cable production lines	13.6%	16.9	16.9	–
For the enhancement of the structured cabling system products production equipment	12.5%	15.6	13.2	2.4
For financing the research and development of diversified new products and the production processes	8.9%	11.0	11.0	–
For repayment of part of the bank loans	10.6%	13.2	13.2	–
For working capital and other	8.4%	10.5	10.5	–
	<u>100.0%</u>	<u>124.5</u>	<u>121.6</u>	<u>2.9</u>

CONTINGENT LIABILITIES AND LITIGATION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

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

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

Chairman of the Board and Chief Executive Officer

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

AUDIT COMMITTEE

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this 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 2018 annual general meeting of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

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

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

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

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

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

The PRC, 31 August 2018

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.