

Potevio 中国普天

CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

(a sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 1202



2018
Annual Report

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CORPORATE PROFILE

Chengdu PUTIAN Telecommunications Cable Company Limited (the “**Company**”) is one of the largest telecommunications cable manufacturers in the People’s Republic of China (the “**PRC**”).

The Company was incorporated in the PRC on 1 October 1994 after its restructuring and has listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 13 December 1994 through the placing and public offer of 160,000,000 H shares (“**H Shares**”). China Potevio Company Limited (“**China Potevio**” or “**CPCL**”), a wholly owned subsidiary of China PUTIAN Corporation Limited (“**China Putian**” or “**Potevio Group**”), is the controlling shareholder of the Company.

The business scope of the Group is as follows:

Wires and cables, optical fibers and optical cables, specialized materials used for cables, irradiation processing, cable accessories, specialized facilities and equipment and the equipment and facilities for various information industry products (excluding products restricted and prohibited by the State), devices and equipment technology research and development, product manufacturing, sales and services, electrical equipment technology development, transfer, consulting and related supporting services;

Design and installation: city and road lighting construction, construction and renovation works for buildings, fire safety facilities construction, electromechanical equipment installation, electroweak system engineering for buildings in communities, computer network engineering and communication engineering and equipment (excluding contracted work for power facilities installation (repair & test));

Wholesale and retail: communications equipment (except radio transmitting equipment), lighting equipment, electrical equipment, instrumentation, electronic measuring instruments, electronic components, transmission, distribution and control equipment, hardware products and electronic products, plastic products, mineral products, building materials and chemical products (except dangerous chemicals products and precursor chemicals), daily necessities, commission agent (except by auction), import and export proprietary goods and similar commodities;

Self-owned real estate, machinery leasing, and property management.

Registered office and office address of the Company in the PRC:

No. 18, Xinhang Road, the West Park of Hi-tech Development Zone, Chengdu, Sichuan Province, the PRC

Postal Code: 611731

SUMMARY OF OPERATIONS

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-------------------------------|-----------------|
| Operating income | 614,607.55 | 763,966.05 |
| Operating profit/("–" represents loss) | 39,865.77 | 95,353.96 |
| Share of profit/("–" represents loss) of associates | -201.52 | 8,683.35 |
| Profit/("–" represents loss) before income tax | 40,165.92 | 94,259.25 |
| Profit/("–" represents loss) attributable to equity holders of the Company | -15,012.92 | 30,325.35 |
| Basic earnings/("–" represents loss) per share | RMB-0.04 | RMB0.08 |

SUMMARY OF NET ASSETS

| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
|------------------------|---|--------------------------------|
| Total liabilities | 213,118.95 | 302,058.08 |
| Total net assets | 1,044,537.72 | 1,071,887.69 |
| Total assets | 1,257,656.67 | 1,373,945.77 |
| Net assets per share * | RMB2.27 | RMB2.35 |

* As at 31 December 2018, net assets per share is calculated on the basis of net assets attributable to the equity owners of the Company of RMB908,061,726.95 (31 December 2017: RMB941,257,867.58) and the total number of issued shares of 400,000,000 shares (31 December 2017: 400,000,000 shares).

CHAIRMAN'S STATEMENT



Wu Changlin
Chairman

Dear Shareholders,

I am pleased to present the annual report of the Company and its subsidiaries (collectively the **"Group"**) for the year ended 31 December 2018 (the **"Year"**) and would like to express our kind regards to all shareholders of the Company (the **"Shareholders"**) on behalf of the board of directors (the **"Board"**) and all staff of the Company.

During the Year, the Group's profit before tax was RMB40,165,923.53 and profit attributable to Shareholders of the Company amounted to approximately RMB-15,012,917.51. Basic earnings per share was approximately RMB-0.04.

In 2018, under the leadership of China Putian, the Board and Supervisory Committee, the Company continued to implement series of reform documents relating to the deepening of reforms on state-owned enterprise promulgated by the Central Committee of the CPC and the State Council. Combined with issues addressed in the list of issues, the Company continuously adjusts and improves its reforms to attain certain achievements. I, on behalf of the Company, would like to express my deepest respect to all of our staff.

During the first half of 2018, the Company attained certain achievements by seizing the opportunity of sustained positive optical fibers market. During the second half of 2018, changes in optical fibers market shifted the market from a seller's market to a buyer's market, which depressed optical fiber prices. Nevertheless, the Company has proactively responded to the market changes and attained certain achievements. Meanwhile, the improvement in economic and operating indicators for the electronic information industrial park, coupled with the introduction of enterprises in line with the strategic plans of the High-Tech Zone into the industrial park, has laid foundation for developing projects at the next stage in the electronic information industrial park. Furthermore, the Company made more efforts in controlling expenses. However, its performance in achieving management targets was less than satisfactory, and it failed to achieve targets including industrial development targets as scheduled.

CHAIRMAN'S STATEMENT

Dragged by the relatively complicated international political and economic environment at present and the uncertain factors in political and economic environment brought by increasingly international trade frictions, there was a slowdown in the global economic growth. However, the overall economic development in the PRC remained stable with a positive outlook. The PRC government is promoting the development in particular fields and persistently guiding the economic restructuring.

In 2019, with the support from China Putian and under the leadership of the Board and the Supervisory Committee, the Company will further put into practice the principles of the 19th National Congress, and operate closely in line with the direction of national policies. It will further study the development trend of the industry. Based on the "Seven Improvements and Enhancements" requirements of the headquarters of the Group, and adhering to Xi Jinping's "Thought on Socialism with Chinese Characteristics for a New Era", the Company will place political construction as its top priority, set the Party construction as its guidance, set development as its goal, deepen reform and innovation, enhance risk prevention and control capabilities and explore transformation and development. The Company will promote the market-oriented allocation of various resources and enhance quality and efficiency.

In 2019, the Company will focus on government investment areas such as construction of smart city. It will make full use of existing tangible and intangible resources to focus its industrial capacity on developing optical telecommunication business and focus its resource efficiency on developing industrial park services; the Company will gradually streamline other low potential, inefficient and loss-making and non-core businesses; the Company will establish a double-driven development pattern with two core businesses. All levels of staff of the Company will make concerted and collective efforts to courageously forge ahead, ensure the thorough completion of various work arrangements and strive to accomplish all the objectives and tasks, so as to promote the sustained development of the Company.

Lastly, I, on behalf of the Board, would like to take this opportunity to express my gratitude to all Shareholders and staff of the Group for their support and trust in the Company throughout the Year.

Wu Changlin

Chairman

22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS



Hu Jiangbing
General Manager

REVIEW OF PRINCIPAL BUSINESS

I. Information about major operations

During the Year, the Company being under the leadership of China Putian, the Board and the Supervisory Committee, it continued to implement series of reform documents relating to the deepening of reforms on state-owned enterprise promulgated by the Central Committee of the CPC and the State Council to vigorously promote supply-side structural reform. Combined with issues addressed in the list of issues, the Company continuously adjusts and improves its reforms to attain certain achievements.

1. Optical telecommunication business

Due to the dramatic changes in the optical fibers market in the second half of 2018, the business of the Company was also adversely affected. Nevertheless, the Company reduced the impact of market changes on the Company by arranging reasonable production levels and devoting efforts in selling optical fiber products with higher gross profit margin.

2. Copper cable business

Since the construction of 5th generation wireless systems (5G) has been put on the agenda, all the major operators have significantly reduced their investments in the construction of 4th generation wireless systems (4G), which caused a year-on-year decline of around 50% in the market demand for wire feed cables in 2018. As a result, the Company recorded a year-on-year decrease in the revenue generated from the sales of wire feed cables.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Further improving management to raise management and control standard

The Company carried out its implementation on all of its operation and management activities, preparation of the list of issues and rectification resolutions. Continuous efforts were made to enhance its professional and standardized management ability to ensure realization of budget targets.

1. Implementing rectification measures with respect to the list of issues and facilitating reform and development of the Company.

With respect to the 62 issues on the list of issues and 8 rectification resolutions, the Company vigorously carried out its rectification work during the Year. Up to now, the Company has completed the rectification of 36 issues listed on the list of issues and made staged achievements on rectification work. Meanwhile, the Company actively boosted special governance of enterprises in dire straits. To solve core problems such as extensive management model, overstaffing and low labor productivity, the Company enhanced its business management and improved its operation efficiency by improving management standard, tapping potential and reducing costs, revitalizing idle assets, placement of surplus and redundant staff and other measures.

2. Accelerating placement of surplus and redundant staff, and consolidating and promoting special governance of enterprises in dire straits.

The Company seriously implemented each project in accordance with the requirements of the SASAC and headquarters of the Company on special governance for “disposing of zombie enterprises and assisting enterprises with difficulties”. During the Year, as required by relevant requirements, the headquarters of the Company and former Shuangliu Heat Shrinkable have accepted 3 inspections and audits conducted by the Enterprise Development Department of headquarters of the Company and the audit team of SASAC on the performance of special governance for “disposing of zombie enterprises and assisting enterprises with difficulties”. Meanwhile, with respect to current situation of production and operation and the progress of industrial restructuring of the Company and current situation of some positions where surplus and redundant staff are left, the Company has drafted the 2018 Measures for the Placement of Surplus and Redundant Staff (Trial) (《2018年公司富餘人員安置辦法》(試行)) in accordance with the relevant new requirements of the SASAC on special governance for “disposing of zombie enterprises and assisting enterprises with difficulties”. The Company has intensified its efforts to accelerate the placement of surplus and redundant staff.

3. Accelerating the separation and transfer of “Three Supplies and Estate Management” and concentrating on developing its core business.

As required by the SASAC and to accelerate the separation and transfer of “Three Supplies and Estate Management”, the Company and state-owned Sichuan Energy Industry Investment Runjia Property Co., Ltd.* (四川能投潤嘉置業有限公司) entered into an agreement on the separation and transfer of property management function of workers’ family living areas of the Company; the Company and Chengdu Environmental Investment Group Co., Ltd. and Chengdu Municipal Waterworks Co., Ltd. entered into an agreement on the separation and transfer of water supply function of workers’ family living areas of the Company; the Company and Chengdu High-Tech Zone Electricity Supply Branch of State Grid Sichuan Electric Power Company (國網四川電力公司成都市高新供電分公司) entered into an agreement on the separation and transfer of electricity supply function of workers’ family living areas of the Company. Besides, the Company submitted materials to the headquarters of the Group to apply for advance funding of budgets of stated-owned capital.

4. Implementing the planning of innovation and entrepreneurship platform and exploring more development channels.

As required by Potevio Group, the Company actively promoted the economic development in the park, striving to transform the Company from a manufacturer into a manufacturing and service-type enterprise. After numerous communications with Economic Operation and Safety Production Supervision Bureau, Planning and Lands Bureau, Electronic Information Industrial Development Bureau and other government departments of Chengdu High-Tech Zone, the industrial park in which Chengdu PUTIAN based has been positioned as an electronic information industrial park, and its preliminary planning program has been accomplished.

5. Coordinating resource integration and restructuring to enhance strategic investment management.

In order to further promote the liquidation of Putaifeng, the Company has established Putaifeng liquidation group and has officially entered into the stage of liquidation. To minimize losses arisen therefrom, the Company has carried out numerous rounds of negotiations with the shareholders of relevant parties. The liquidation is currently conducted according to the liquidation and disposal plan. The Company has completed the equity acquisition and business changes of Heat Shrinkable Plant and the reform of its company system. The original name of “Chengdu Telecom Cable Shuangliu Heat Shrinkable Product Plant” has been changed to “Chengdu Putian New Material Co., Ltd. (成都普天新材料有限公司)”. After the reform of system, new adjustments were made to the organizational structure and post allocation, and the general-manager responsibility system under the leadership of the Board was implemented. The Company has facilitated the equity transfer of Chengdu Bada Connector Co., Ltd. and collaborated with it to complete its business changes.

The Company has provided a basis for the decomposition of strategic implementation measures and subsequent assessment by organizing various industrial and functional sectors to complete internal and external analysis, formulating relevant industrial and functional strategic plans, and summarizing to complete its Development Strategy and Plan for 2018 to 2020 (《2018–2020年發展戰略與規劃》).

MANAGEMENT DISCUSSION AND ANALYSIS

6. Strengthening supervision and management of audit and legal affairs, and enhancing risk prevention and control capabilities.

The headquarters of the Company and its holding companies have been organized to conduct comprehensive inspection on the risk management and internal control system. The Company revised a series of rules and regulations on risk management and control as well as internal control, and completed the Annual Report of Chengdu Putian on Comprehensive Risk Management 2018 (《成都普天2018年度全面風險管理報告》) and the Report of Chengdu Putian on Internal Control Evaluation 2017(《成都普天2017內部控制評價報告》). As for internal audit, the Company carried out 2 off-office audits and 1 performance audit. The Company has improved the authorization system of the Group, improved the level of customer credit management, reduced the risk of legal proceedings, and prepared the Measures of Chengdu Putian on Authorization Management (《成都普天授權管理制度》). Advance audit of contracts on economic businesses was strengthened. Written comments were made on contracts in questions and doubts with a contract review rate of 100%. The Company has coordinated with the Audit Team of National Audit Office in Putian for support and coordination in the process of special audit investigation.

The Company has further strengthened the management of related party transactions, and organized the business units to sign the Related Party Transactions Responsibility Statement (《關聯交易責任書》) in 2018. The Company has required its business units to carry out self-check and reporting of the potential related party transactions each month on the basis of preparing and publishing the related party transaction briefings in each quarter, thus ensuring its management of related party transactions is in compliance with the Listing Rules. The Company has also sorted out the approval procedures of contracts for related party transactions for the early realization of informatization management.

7. Optimizing basic management and improving management standard.

The Company advances the construction of an institutionalised system and combines the requirements established by the Supervisory Committee to continuously improve the overall management of the Company. Up to now, the Company (including its subsidiaries) has abolished 102 systems, revised 29 systems and formulated 35 new systems. The Company has adopted a sound systematic management system to provide system guarantee for law-based governance of the Company.

The Company has fully advanced the bidding management work and standardized the bidding procedures through informatization. Information-based procedures consisting of the "Annual Bidding Plan", "Quarterly Adjustments on Bidding Plan" and "Application for Bids" were added. The Company has implemented the bidding elements in steps pursuant to such plans. Up to now, a total of 10 biddings have been accomplished.

The Company further pushed forward the comprehensive informatization management and optimized its workflow, so as to gradually improve its information system, promote informatization management standard and facilitate application of informatization. The Company gradually improved its decision-making analysis system in order to help leaders keep abreast of the operation status of the Company and to provide powerful support for decision-making. The mobile application named Chenglan Yunshang (成纜雲商) has been officially put into online operation since February 2018. It is comprised of three modules, including integrated work plan, OA collaborative office and decision-making analysis system, which can facilitate the staff of the Company to promptly handle relevant affairs.

In accordance with the requirements of Potevio Group for a unified fund system, the Company has entered into relevant agreements with various banks to make good preparations for a unified fund system. The Company has actively sorted out its accounts, and the headquarters of Chengdu PUTIAN has sorted out 3 bank accounts.

Adhering to technological innovation, the Company has obtained 13 patents in 2018. It actively strove for government rewards, and focused on project applications. The Company has made continuous efforts to improve its QEHS management system. The contents of the management manuals for quality, environment and occupational health and safety management system of the Company have been updated according to the requirements of the new certification standards and organization adjustments of the Company.

The Company has attached great importance to work safety, energy conservation and environmental protection, identified major hazards and important environmental factors and developed the control lists. The Company has signed a safety responsibility contract with relevant responsible units of the Company, and conducted emergency response drills for "Emergency Environmental Incident of Industrial Sewage (突發工業排污環境事故)" in the industrial park. The Company has organized safety management training, on-site fire extinguishing, and security against terrorism, in which over 200 staffs from different enterprises in the industrial park participated.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Further strengthening Party construction to play the core roles

In accordance with the deployment of the Group's Party Committee and State-owned Assets Supervision and Administration Commission of Chengdu Municipal People's Government, the Company has organized and completed the annual democratic appraisal of members of the leaders. It has organized the Party branches to complete the "Two Studies, One Action (兩學一做)" democratic consultation and democratic appraisal of Party members. Such Party branches of the Company were also organized to conduct the "Complying with, Learning and Narrating the Party Constitution (遵黨章、學黨章、講黨章)" activities, which improved the awareness of Party members on the nature of the Party. The Company has consolidated and improved the role of its Party branches as strongholds through "Three Classifications, Three Upgrading (三分類三升級)" evaluation.

The Company seriously put into practice the spirit of the Party meetings on integrity construction of China Putian, and the Party members were organized to study "Four Patterns (四種形態)" measures for China Putian to put into practice supervision and discipline and implementation measures on building "Couldn't Commit Corruption (不能腐)" system and mechanism. The Company has taken measures including utilizing new publicity channels such as WeChat group to intensify anti-corruption consciousness of Party members and cadres.

The Company conducted a series of commemorative activities on its 60th anniversary, produced corporate videos and history review videos, and sorted out and saved certain historical materials. The Company has also organized artistic performance and seminars with former leaders and current colleagues, and enhanced the sense of honor and cohesion of new and current colleagues of the Company.

FINANCIAL ANALYSIS

Turnover

During the Year, the turnover of the Group amounted to RMB614,607,551.15, representing a decrease of 19.55% as compared with RMB763,966,053.96 for the year ended 31 December 2017 (the "Previous Year"). (The decrease in turnover was due to a decrease of 99.58% in the turnover of Chongqing Putaifeng as compared to the corresponding period of the Previous Year as the Group's decision to exit the business of aluminium rods and related products; a decrease of 56.44% in the turnover of Chengdu Zhongling as compared to the corresponding period of the Previous Year due to a drop in market demand for wire feed cable; a decrease of 9.56% in the turnover of Chengdu SEI as compared to the corresponding period of the Previous Year due to a decline in the optical fibers market in the second half of 2018.)

During the Year, the turnover of the Company was RMB264,668,405.04, representing an increase of 12.24% as compared to the corresponding period of the Previous Year. Chengdu SEI, a company in which the Company owns 60% equity interest, recorded a turnover of optical fiber of RMB333,655,714.87, representing a decrease of 9.56% as compared to the corresponding period of the Previous Year. Chengdu Zhongling, a company in which the Company owns 96.67% equity interest, recorded a turnover of wire feed cable of RMB43,513,039.31, representing a decrease of 56.44% as compared to the corresponding period of the Previous Year.

Profit of the Group attributable to equity holders of the Company for the Year

The loss of the Group attributable to equity holders of the Company for the Year amounted to RMB15,012,917.51, while a profit of the Group attributable to equity holders of the Company of RMB30,325,354.80 was recorded for the Previous Year.

RESULTS ANALYSIS

As at 31 December 2018, the Group's total assets decreased by 8.46% from RMB1,373,945,770.47 as at the end of the Previous Year to RMB1,257,656,669.24, of which current assets totaled RMB801,583,778.55, accounting for 63.74% of the total assets and representing a decrease of 10.84% as compared with RMB899,003,986.51 as at the end of the Previous Year. Property, plant and equipment totaled RMB231,472,088.63, accounting for 18.41% of the total assets and representing a decrease of 12.21% as compared with RMB263,666,221.68 as at the end of the Previous Year.

As at 31 December 2018, the Group's total liabilities amounted to RMB213,118,951.92; total liability-to-total asset ratio was 16.95%; bank and other short-term loans were RMB6,981,019.84, which decreased by 5.78% as compared with RMB7,409,015.78 as at the end of the Previous Year. During the Year, the Group did not conduct other capital raising activities.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2018, the Group's bank deposits and cash totaled RMB441,997,685.40, representing a decrease of 12.08% as compared with RMB502,739,979.20 as at the end of the Previous Year.

During the Year, the Group's selling expenses, administration expenses, research and development expenses and finance expenses amounted to RMB19,844,839.89, RMB59,379,163.81, RMB5,559,320.05 and RMB-4,125,891.27, respectively, representing an increase of 2.52%, a decrease of 9.57%, a decrease of 8.57% and a decrease of RMB563,369.44 respectively as compared with RMB19,357,239.02, RMB65,660,133.85, RMB6,080,324.55 and RMB-4,689,260.71 respectively in the Previous Year.

As at 31 December 2018, the Group's account receivables and bill receivables amounted to RMB115,319,867.21 and RMB112,895,610.20 respectively, representing a decrease of 6.14% and an increase of 14.89% respectively as compared with RMB122,868,157.43 and RMB98,266,619.18 respectively as at the end of Previous Year.

Analysis of Capital Liquidity

As at 31 December 2018, the Group's current assets amounted to RMB801,583,778.55 (Previous Year: RMB899,003,986.51), current liabilities were RMB144,849,434.62 (Previous Year: RMB230,248,659.24), the annual receivables turnover period was 69.76 days and the annual inventory turnover period was 75.29 days. The above data indicates that the Company has strong solvency but its liquidity ability and management are yet to be improved.

Analysis of Financial Resources

As at 31 December 2018, the Group's bank and other short-term loans were RMB6,981,019.84. As the Group had comparatively sufficient bank deposits and cash of RMB441,997,685.40, the Group does not have short-term insolvency risk.

Non-current Liabilities or Loans

As at 31 December 2018, the outstanding amount of the Group's long-term loan incurred as a result of the purchase of a French accelerator was RMB6,981,019.84 (equivalent to EUR889,607.87). The loan is a French government loan at an interest rate of 0.5% per annum. The loan denominated in Euro is subject to exchange rate risks resulting from fluctuations of the exchange rate in the international foreign exchange market. This long-term loan is an instalment loan in respect of which the maximum repayment period is thirty-six years. As the outstanding amount of the long-term loan is relatively small, there is no material impact on the operations of the Group.

Capital Structure of the Group

The Group's capital is derived from its profit, proceeds raised, bank and other loans and proceeds from the disposal of the land use rights of the old site of the Company. The use of raised proceeds has strictly complied with the relevant legal requirements. In addition, in order to ensure the proper utilization of capital, the Group has strengthened its existing financial management system. The Group has also paid attention to avoiding high risks and to improving its return on investments. During the Year, debts and obligations were repaid and performed when due in accordance with the relevant contractual terms.

Liquidity and Source of Funds

During the Year, the Group's net cash flow from operating activities amounted to RMB-42,566,901.22, representing a decrease of RMB204,447,088.67 as compared with RMB161,880,187.45 in the Previous Year.

During the Year, the Group spent RMB20,619,783.73, representing a decrease of RMB8,294,089.63 as compared with RMB28,913,873.36 in the Previous Year, for the purchase of property, plant and equipment and expenses on the construction in progress.

As at 31 December 2018, the Group's liabilities and shareholders' equity amounted to RMB1,257,656,669.24 (as at 31 December 2017: RMB1,373,945,770.47). The Group's interest expenses amounted to RMB111,020.63 for the Year (for Previous Year: RMB115,291.76).

Contingent Liabilities

As at 31 December 2018, the Group did not have any contingent liabilities (as at 31 December 2017: Nil).

BUSINESS OUTLOOK

In 2019, with the support from China Putian and under the leadership of the Board and the Supervisory Committee, the Company will further put into practice the principles of the 19th National Congress, and operate closely in line with the direction of national policies. It will further study the development trend of the industry. Based on the "Seven Improvements and Enhancements" requirements of the headquarters of the Group, and adhering to Xi Jinping's "Thought on Socialism with Chinese Characteristics for a New Era", the Company will place political construction as its top priority, set the Party construction as its guidance, set development as its goal, deepen reform and innovation, and explore transformation and development. The Company will promote the market-oriented allocation of various resources and enhance quality and efficiency.

The operational principles of the Company for 2019 are adhering to strategic direction of driving growth by business and capital, shaping concepts for business development, promoting capital operation, making use of idle resources, further strengthening refined management, optimizing and improving internal control, resolving difficulties in development of the Company.

I. Development and deployment of principal operations

The Company will accelerate its organizational restructuring, boost its business transformation and upgrading, focus on optical telecommunication business, locomotive cable business and industrial park planning, aiming to nurture new growth drivers and further enhance its core competitiveness and capacity for sustainable development.

- 1. Optical telecommunication business:** The price of optical fibers has sharply dropped since July 2018, and the Company is expected to face more intense competition in optical fiber market in 2019. Confronted with such situation, the Company will dig into Fiber To The X ("FTTX") construction market segment. It will realize reasonable profits from business operation by implementing the strategy of marketization at each step, product differentiation and pursuing steady growth. (i) It will further expand its production capacity of optical fibers and remedy the weak spot of small production scale, in order to enhance its competitiveness and profitability. (ii) It will improve its product portfolio, develop new optical fibers such as small-diameter optical fibers, and promote the sales of characteristic optical fibers with high gross profit margin. (iii) It will further promote the sales of characteristic optical fibers and relevant derivative products and utilize its established brand awareness in FTTX construction market segment, aiming to gradually increase the market share of operators.
- 2. Energy transmission cable business:** In light of the decline in wire feed cables market, the Company intends to shut down its wire feed cables business. It will continue its transformation and upgrades, and optimize its industrial structure by focusing on developing its locomotive cable business. It will improve its marketing capacity and production & operation capacity by ramping up its efforts in the sales of locomotive cables, strengthening the collection of accounts receivable and payment for goods and proactive sales of inventory, and formulating specific appraisal targets, measures and requirements; it will strengthen the cost and quality control to form a manufacturing system with production ordered, quality stabilized and delivery guaranteed, and ensure to avoid more overstock goods and additional provision for bad debts. The Company will improve its technological innovation capabilities to meet the specialized market demand, and strengthen the research and development of specialty and high-end products such as rail transit and new energy cables.
- 3. Electronic information industrial park:** On one hand, the Company will further explore its potential by promoting the utilization rate of its existing plant. On the other hand, the Company will actively seize the opportunity of the West Park of Hi-tech Development Zone being defined as an electronic information industrial park, and consolidate its industrial and economic growth drivers by developing service industry in the industrial park in a practical and measured manner with existing resources of China Putian, local government and the Company. It will prudently and properly conduct the feasibility study and report on electronic information industrial park and actively seek capital investments and develop a cooperation programme to operate its business in the industrial park.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Supporting measure to be adopted for operation and management

The Company will strengthen its intensive operation and refined management, and improve management efficiency and operation quality, thus generating dynamic and momentum for the sustainable development of the Company.

1. Setting the Party construction as its guidance and promoting the operation of the Company by strictly administering its Party branches.

The Company will set the Party as its guidance and set development as its goal. The improvement in operation efficiency, enhancement in the competitiveness of enterprises, and realization of value maintenance and appreciation of state-owned assets will be set by the Company as the starting point and foothold of its Party construction works. The Company will make efforts to safeguard the implementation of all the work related to Party construction, aiming to achieve high-quality development led by high-quality Party construction.

By further studying and implementing the spirit of the 19th CPC National Congress, adhering to the principle of strictly administering its Party branches in all aspects, and aiming at improving the quality of Party construction work, the Company will improve the establishment of “learning-oriented, service-oriented and innovation-oriented” Party organizations and focus on enhancing the scientific level of Party construction. It will further promote “Four Integrations (四個融合)” to effectively implement the accountability system in Party construction. It shall fully play the role of its Party branches as strongholds in the process of production and operation and play the role of Party members as paragons. The Company will prevent the rebound and resurgence of “Four Morales (四風)” by intensifying its efforts to strictly administer its Party branches in all aspects, seriously implementing “Two Responsibilities (兩個責任)”, conscientiously supervising enforcement and accountability, strengthening daily supervision and inspection, and seriously implementing the spirit of the eight-point frugality code issued by the CPC Central Committee.

2. Boosting comprehensive risk management and enhancing risk management and control.

The Company will boost its comprehensive risk management, further implement the requirements of the rules of the SASAC on strengthening the internal control systems of central enterprises, and complete the streamlining of external compliance and internal control. The Company will improve its scientific management and risk prevention and control standard by strengthening its leadership, consummating its system, intensifying its internal control, regularly carrying out inspection and assessment, and rigorously making appraisals. It will adopt dynamic monitoring for issues involving significant risks. The Company will strengthen its internal audit function, and continue to improve and revise the internal control manual of the Company. The Company will intensify “Two Funds” reduction and focus on the collection of accounts receivable. It will continue to strengthen its compliance with the Listing Rules and other relevant laws and regulations, and effectively maintain its good image. It will strengthen its centralized procurement management to standardize and consummate its bidding procedures. It will implement centralized procurement in strict accordance with relevant regulations. It will further improve the informatization of centralized procurement and supplier management, and undertake and use the electronic procurement platform of China Putian in a timely manner. It will identify risks related to quality of product process. The Company will strengthen its safety and environmental protection management. It will adhere to its safety works at all levels to prevent the occurrence of safety related accidents and ensure smooth production and operation of the Company. The Company will contribute to the building of an ecological civilization by further enhancing energy conservation and environmental protection works.

3. Maintaining the essence and rejecting the dross in resources allocation and enhance its competitiveness in the industry.

The Company will strengthen its strategic guidance and profit-orientation consciousness. It will enhance its core competitiveness in the industry by also deeply optimizing its resources allocation with the principle of maintaining the essence and rejecting the dross. It will reinforce its management in its joint ventures and resources integration to release the efficiency of its existing assets to the utmost extent. The Company will moderately formulate its plan for irradiation businesses; implement equity incentive measures to improve the profitability of Bada; advance the equity disposal of Yuexin; selectively withdraw from business with no hope of profit-making and poor management. The Company will finish the liquidation and cancellation of Putaifeng. According to the management requirements of “innovation and entrepreneurship (雙創)”, the Company will reinforce its management in the Putian industrial park, promote the strength of the industrial park, strive to introduce high-technology and high value-added emerging enterprises into the industrial park. In the meanwhile, the Company will actively seek government-funded projects.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Improving organizational structure and strengthening human resources management.

The Company will vigorously promote managerial innovation, carry out adjustments to its organization, and improve the efficiency of each position in each functional department. Based on the development plan of the Company and work practice, the Company will further optimize the organizational structure of the Company, standardize management function and improve comprehensive management efficiency.

The Company will improve the existing performance appraisal system, and strengthen the profit-oriented performance assessment system. It will strengthen the assessments of staff at all levels. It will further strengthen the building of the talent pool by setting up allocation mechanism of human resources that accommodates to the industrial restructuring and development of the Company, thus provide human resource guarantee for the industrial development of the Company. The Company will select and appoint cadres in strict accordance with the standards and procedures for selecting and employing candidates. It will make more efforts to select young cadres and improve the building of the talent pool. The Company will reserve knowledge for promoting its high-quality transformation and development by intensifying the study and training of cadres and staff at all levels and constantly improving capabilities in operation and management.

5. Deepening enterprise reform and advancing loss management.

The Company will re-streamline all the businesses of Zhongling and plan to shut down its wire feed cable business; vigorously control the losses, compare with industry average, and make efforts to achieve the key improvement goals of improving product acceptance rate and material utilization rate. The Company will exploit the potential in track cable market and make more efforts in developing external processing market. The Company will improve its production efficiency and reduce its labor costs by strengthening its human resource management, consummating its assessment system, and optimizing its personnel structure. The Company will reduce its financial costs by strengthening its control over period charges, enhancing its management of inventory and accounts receivable and reasonably arranging its funds. The Company will strive to achieve its established annual targets and make breakthroughs.

6. Strengthening basic management and enhancing operation guarantee capability.

The Company will further streamline and rectify issues on the list of issues, improve the comprehensive budget management and financial internal control system, and implement special tasks such as “Two Funds” reduction, loss management and disposal of inefficient and ineffective assets, strictly follow the time schedule for rectification and regularly report the rectification affairs to the Supervisory Committee and China Putian. The Company will further strengthen its control over monthly budget by timely analysis the budget implementation in terms of monthly and cumulative profits, income, expenses and other indicators, thus fully play the role of budgets as guidance in production and operation. The Company will strive to increase the concentration of funds and reduce the number of bank accounts. The Company will urge its subsidiaries to reduce the asset-liability ratio and the ratio of profit to cost.

The Company will strengthen the implementation of management system of the Company, and conscientiously streamline its system and procedure to ensure matching system with procedure. The Company will continue to improve its technology innovation and quality management system and enhance the operation standard of new media.

REPORT OF THE DIRECTORS

The Board is pleased to present its report and the audited financial statements of the Group for the Year.

RESULTS AND DISTRIBUTION

1. The results of the Group are set out in the consolidated income statement on pages 63 to 64 of this annual report.
2. The financial position of the Group as at 31 December 2018 is set out in the consolidated balance sheet on pages 57 to 59 of this annual report.
3. The changes in equity of the Group are set out in the consolidated statement of changes in shareholders' equity on page 71 of this annual report.
4. The cash flows of the Group are set out in the consolidated cash flow statement on pages 67 to 68 of this annual report.
5. The Company implemented a profit distribution proposal: the Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS REVIEW

A review of the business of the Group and its future business development and outlook are set out in the "Management Discussion and Analysis" on pages 6 to 13 of this annual report. These discussions form a part of the Report of the Directors.

FINANCIAL HIGHLIGHTS

The financial highlights of the Group for the five years ended 31 December, which were extracted from the consolidated financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC, is as follows.

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|--------------|--------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Operating income | 614,607.55 | 763,966.05 | 1,332,288.89 | 1,209,522.06 | 945,460.89 |
| Profit/("–" represents loss) before income tax | 40,165.92 | 94,259.25 | 25,242.42 | –37,600.80 | –37,180.84 |
| Income tax expense/("–" represents income) | 22,473.33 | 25,785.24 | 17,984.52 | 5,491.42 | 3,803.14 |
| Profit/("–" represents loss) for the Year | 17,692.59 | 68,474.01 | 7,257.90 | –43,092.22 | –40,983.98 |
| Of which: | | | | | |
| Profit/("–" represents loss) attributable to equity holders of the Company | –15,012.92 | 30,325.35 | –16,103.26 | –40,628.30 | –29,504.43 |
| Minority interests | 32,705.51 | 38,148.66 | 23,361.17 | –2,463.92 | –11,479.55 |
| Total assets | 1,257,656.67 | 1,373,945.77 | 1,307,464.50 | 1,893,704.93 | 1,987,449.06 |
| Total liabilities | 213,118.95 | 302,058.08 | 289,526.05 | 612,105.56 | 666,532.00 |
| Minority interests | 136,475.99 | 130,629.82 | 104,481.17 | 350,697.12 | 353,161.04 |
| Total net assets | 1,044,537.72 | 1,071,887.69 | 1,017,938.46 | 1,281,599.36 | 1,320,917.07 |

PRINCIPAL ACTIVITIES

The principal activities of the Group are electric wire and cable, optical fiber and cable, wire and cable specific materials, irradiation processing, cable accessories, special equipment, equipment and different kinds of information industrial products (except categories restricted or prohibited by the State Council of the PRC) devices and equipment technology research and development, product manufacturing, sales and service. The analysis of the Group's turnover and contribution to the operating results for the Year according to the Group's principal activities and geographical markets is set out in note XIII to the financial statements on page 171 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Based on the business nature of the Group, the audit, supervision and legal affair department of the Group carries out compliance evaluation annually to identify applicable laws and regulations on quality, environmental protection and occupational and health safety in an effort to ensure continuous compliance with relevant requirements under applicable laws and regulations.

REPORT OF THE DIRECTORS

RELATIONSHIPS WITH SUPPLIERS AND CUSTOMERS

The Group strives to maintain fair and co-operating relationship with the suppliers and does not have any major supplier that has significant influence on the operations. Relationship with customers is the fundamental of business. The Group fully understands this principle and has maintained close relationship with customers through various means to fulfill their immediate and long-term needs. The analysis of the Group's single largest supplier, the top five largest suppliers, the single largest customer and the top five largest customers for the Year are as follows:

| | Percentage (%) | |
|-------------------------|----------------|-------|
| | 2018 | 2017 |
| Purchase | | |
| Single largest supplier | 27.91 | 25.03 |
| Five largest suppliers | 76.82 | 64.08 |
| Sales | | |
| Single largest customer | 23.84 | 13.91 |
| Five largest customers | 37.66 | 35.85 |

As far as the directors (the "Directors") of the Company aware, none of the Directors or supervisors (the "Supervisors") or their respective close associates or any Shareholders holding more than 5% of the Company's share capital had any direct or indirect interests in any of the five largest suppliers or the five largest customers of the Group.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are set out in note VII to the financial statements on page 154 of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the changes in the property, plant and equipment and construction-in-progress of the Group during the Year are set out in note V to the financial statements on pages 125 to 130 of this annual report respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note V to the financial statements on page 139 of this annual report.

The Company did not have any proposal for bonus issue, placing of shares or issue of new shares during the Year and there was no change in the share capital of the Company during the Year and the period from 31 December 2018 up to the date of this annual report.

BANK BALANCES

Details of changes in bank balances for the Year of the Group are set out in note V to the financial statements for the Year on page 107.

UNDISTRIBUTED PROFIT FOR THE YEAR

Undistributed profit for the Year of the Group is set out in the consolidated statement of changes in shareholders' equity. As at 31 December 2018, undistributed profit distributable to shareholders is set out in note V to the financial statements for the Year on page 140.

OVERDUE TIME DEPOSITS

As at 31 December 2018, the Group did not have any deposit and trust deposit with non-banking financial institutions or time deposits that cannot be recovered on maturity.

INCOME TAX

Pursuant to the relevant regulations of the Administrative Methods for the Recognition of High and New Technology Enterprises (Guo Ke Fa Huo [2016] No. 32) and Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (Guo Ke Fa Huo [2016] No. 195), the Company was recognized as a high-tech enterprise and enjoyed the high-tech enterprises preferential tax rate of 15% for a period of three years from 2018 to 2020.

Pursuant to the relevant regulations of the Administrative Methods for the Recognition of High and New Technology Enterprises (Guo Ke Fa Huo [2016] No. 32) and Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (Guo Ke Fa Huo [2016] No. 195), the Company's subsidiaries, Chengdu SEI Optical Fiber Co., Ltd. and Chengdu Zhongling Radio Communications Co., Ltd. were recognized as high-tech enterprises and enjoyed the high-tech enterprises preferential tax rate of 15% for a period of three years from 2017 to 2019.

RISK MANAGEMENT

The Group adheres to the principle that risk management must be in line with its overall business strategies and serve the Group's strategic concept while strengthening the risk classification and identification management and taking risk management as its daily routine. The Group's risk management targets to seek appropriate balance between the risks and benefits and minimize the effects of the risks on the Group's financial performance and maximize the interests of the shareholders and other equity investors. Based on such objectives, the Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor and control risks within a stipulated range in a timely and reliable manner.

1. Cash flow risk

The cash flow risk of the Group is primarily attributable to receivables. In strict accordance with the account receivables management system, the Group regularly prepares quarterly breakdown for aging of account receivables and issues it to each department for reconciliation in a timely manner, so as to improve the turnover rate of account receivables. The Group brings the reduction indicators of account receivables into the appraisal.

2. Investment risk

The investment risk of the Group is primarily due to the losses made by its associates caused by factors such as policies and market and failure to realize the expected investment return set out in the feasibility report. The Group actively strengthens control over its investments and follows up the progress of projects. The Group shall timely take withdrawal measures such as streamlining and liquidation once significant losses occur.

REPORT OF THE DIRECTORS

3. Market demand risk

The market demand risk refers to the risk that the decline in the market demand for the products of the Group when it's affected by the communication industry and advance of science and technology and that its market position being threatened by substitute products. The Group constantly and actively focuses on the development of communication industry and energy transmission technology. The information on developments and changes in new technology is timely reported back to technology system and will be handled by technology system as the development trend for product technology analysis; meanwhile, the Group strengthens its market forecasting capabilities, improves its management and maintenance in customer levels divided into key customer, major customer and general customer, explores new customers and develops new markets.

4. Management system operation risk

The Group has established its quality, environment and occupational health and safety management system. However, there may be major or regional disqualification due to management defects during the operation of the system. The Group regularly organizes relevant staff to attend to internal and external training. It also elaborately designs and organizes internal audit, increases the frequency of daily supervision, makes efforts to monitor relevant links. It timely makes improvements whenever issues are identified, makes suggestions for improvement by way of statistical analysis and supervises the results of improvement.

5. Public opinion risk

The public opinion risk is the risk that the Group fails to implement relevant procedures as required by the Listing Rules and internal control requirements due to tardy or inaccurate information disclosure caused by tardy report of relevant information attributable to the shortfall in the implementation of internal control manual system within the Group. The Group actively carries out compliance training and improves the implementation and management process of internal control system, aiming to promote its information disclosure standard.

6. Safety risk

The Group is a manufacturing enterprise. Safety risk lies in the probability of the number of occurring accidents where accidents mean the events which causes casualties or major property damages arising in connection with manufacturing. The Group further refines its safe production responsibility contracting management system. It also formulates a list of major hazardous sources and critical environmental factors for key monitoring by the Group. With strengthened safety training as well as inspection and rectification on potential safety hazards, there are zero tolerance to any potential safety hazards and the Group ensures a safe environment for production during operation and in accordance to the laws.

NUMBER OF SHAREHOLDERS

Details of the number of Shareholders as recorded in the register of members of the Company as at 31 December 2018 are as follows:

| Classification | Number of Shareholders |
|--|------------------------|
| State-owned legal person shares | 1 |
| Overseas listed foreign invested shares — H Shares | 192 |
| Total number of Shareholders | 193 |

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the largest Shareholder was China Potevio, holding 240,000,000 issued state-owned legal person shares, and representing 60% of the total issued share capital of the Company. At the beginning of the Year, HKSCC Nominees Limited ("**HKSCC**", holding shares of the Company on behalf of various customers) held 155,956,999 H Shares of the Company, representing 38.99% of the total issued share capital of the Company. At the end of the Year, HKSCC held 156,232,999 H Shares of the Company, representing 39.06% of the total issued share capital of the Company.

As shown in the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance ("**SFO**"), the Group was notified by the Shareholders holding 5% or more of the Group's issued H Shares. The interests, other than those held by Directors, Supervisors and chief executives of the Company, are disclosed below.

As indicated by HKSCC, as at 31 December 2018, the following Central Clearing and Settlement System ("**CCASS**") participants held 5% or more of the total number of H Shares issued:

| CCASS participant | Number of H Shares held at the end of the Year | Percentage of H Shares | Percentage of total issued share capital |
|---|---|-------------------------------|---|
| The Hongkong & Shanghai Banking Corporation Limited | 16,239,000 | 10.14% | 4.10% |
| Bank of China (Hong Kong) Limited | 9,844,000 | 6.15% | 2.46% |
| BOCI Securities Limited | 9,733,000 | 6.08% | 2.43% |

Save as disclosed above, as at 31 December 2018, the Company was not aware of any other shareholding interests which were required to be disclosed pursuant to the SFO. The Board was not aware of any person holding, directly or indirectly, 5% or more of the interests in the issued H Shares of the Company.

SUFFICIENT PUBLIC FLOAT

According to public information available to the Company and to the best knowledge of each director, the Company has confirmed that the public have held sufficient shares during the Year and as at the date of this report.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

During the Year and as at the date of this report, the Directors and Supervisors of the Company are as follows:

Executive Directors

Wu Changlin (*Chairman*, appointed on 22 November 2018)
Zhang Xiaocheng (resigned on 22 November 2018)
Hu Jiangbing (*Vice Chairman*, appointed on 22 November 2018)
Han Shu
Wang Micheng
Xu Liying
Liu Yun
Fan Xu (resigned on 22 November 2018)

Independent Non-executive Directors

Choy Sze Chung, Jojo (resigned on 31 January 2018)
Mao Yaping
Xiao Xiaozhou
Lin Zulun (resigned on 13 November 2018)
Feng Gang (appointed on 13 November 2018)

Supervisors

Zheng Zhili
Xiong Ting
Liu Jun

PROFILE OF DIRECTORS, SUPERVISORS, COMPANY SECRETARY AND SENIOR MANAGEMENT

1. Directors

Executive Directors

Mr. Wu Changlin, aged 53, a master's equivalent degree holder, has a bachelor's degree in Economics (majoring Finance and Accounting) from Beijing Vocational College of Finance and Commerce. He is an executive Director and the Chairman of the ninth session of the Board of the Company. He is the general accountant and standing committee member of the party committee of China PUTIAN Corporation Limited, and concurrently serves as a director, executive director, a member of executive committee and financial controller of China Potevio Company Limited, chairman of China Potevio PolyPay Co., Ltd. (普天銀通支付有限公司), a director of Putian Eastern Communications Group Co., Ltd. (普天東方通信集團有限公司), a director of Putian New Energy Co., Ltd. (普天新能源有限責任公司), etc. Mr. Wu was previously the manager and deputy general manager of finance department of Wanda Posts and Telecommunications Co., Ltd. (郵電萬達通信有限公司), deputy general manager and general accountant of Beijing Putian Taili Telecommunications Technology Co., Ltd. (北京太力通信技術開發公司), deputy division chief of capital division of finance department of China PUTIAN Corporation Limited, general manager of finance department and general manager of capital operation department of China Potevio Company Limited, deputy general accountant of China PUTIAN Corporation Limited, etc. Mr. Wu joined the Company in November 2018. He has nearly 30 years of extensive experience in financial management and capital operation.

REPORT OF THE DIRECTORS

Mr. Hu Jiangbing, aged 50, a bachelor's degree holder, has a bachelor's degree in Engineering (majoring Telecommunication Engineering) from Chongqing Institute of Posts and Telecommunications. He is an executive Director and the Vice Chairman of the ninth session of the Board of the Company. He is the Secretary of the Party Committee and General Manager of the Company. Mr. Hu was previously a technician of institute, an engineer of video branch of factory, deputy factory manager of machine branch of factory, general manager and secretary of branch of technical quality department and deputy factory manager of Xi'an Putian Communication Equipment Factory (西安普天通信設備廠), general manager of China Putian Information Industrial Xi'an Company (中國普天信息產業西安公司), and a committee member of party committee and deputy general manager of Xi'an Putian Telecommunication Co., Ltd (西安普天通信有限公司). Mr. Hu joined the Company in November 2018. He has extensive experience in telecommunication technology and corporate management.

Mr. Han Shu, aged 55, a master's degree holder, has a bachelor's degree in Engineering from Nanjing University of Posts and Telecommunications and a master's degree in Engineering from Beijing University of Posts and Telecommunications. He is currently as an executive Director of the ninth session of the Board of the Company, a general manager of business department I of China Potevio Company Limited and a director of Nanjing PUTIAN Telecommunications Company Limited (a B share listed company on Shenzhen Stock Exchange with a stock code of 200468). Mr. Han was previously a technician at the second workshop of Xi'an Microwave Hardware Factory of the Posts and Telecommunications Ministry (郵電部西安微波設備廠), an engineer and the deputy director of head office Xi'an Posts and Telecommunications Equipment Factory Machine Branch (西安郵電通信設備廠整機分廠), deputy factory manager, factory manager and secretary of the party committee of Xi'an Putian Communication Equipment Factory (西安普天通信設備廠) and the deputy general manager of communication business department and general manager of marketing department I of China Potevio Company Limited. Mr. Han has over twenty years of extensive experience in communication and information technology.

Mr. Wang Micheng, aged 52, a master's degree holder, has a master's degree in Business Administration from China Europe International Business School and a bachelor's degree in Arts from Hangzhou University. He is currently an executive Director of the ninth session of the Board of the Company, a director, vice chairman, general manager and secretary of the party committee of Hangzhou HONYAR Electrical Co., Ltd (杭州鴻雁電器有限公司), and concurrently serves as an executive director (legal representative) of Putian Intelligent Lighting Research Institute Co., Ltd. (普天智能照明研究院有限公司). Mr. Wang served at Hangzhou HONYAR Electrical Co., Ltd (杭州鴻雁電器有限公司) as secretary to general manager, deputy manager of the marketing department, deputy manager of the public relations department, office director and manager of the marketing department, assistant to general manager and office director, manager of the public relations department, deputy general manager and manager of the plastic business department, and executive deputy general manager and manager of the plastic business department and general manager of the Company. Mr. Wang has over twenty years of extensive experience in corporate management.

Ms. Xu Liying, aged 48, a master's degree holder, has a bachelor's degree in Economics from Hangzhou College of Commerce and a master's degree in Economics from Shanghai University of Finance and Economics. She is currently an executive Director of the ninth session of the Board of the Company and the general manager of the legal and risk controls department of China PUTIAN Corporation Limited, and concurrently serves as a supervisor and the chairman of the supervisory committee of Beijing Putian Taili Telecommunications Technology Co., Ltd. (北京普天太力通信科技有限公司), a supervisor and the chairman of the supervisory committee of Beijing Capitel Co., Ltd. (北京首信股份有限公司), and a supervisor and the chairman of the supervisory committee of Hangzhou HONYAR Electrical Co., Ltd (杭州鴻雁電器有限公司). Ms. Xu was previously a cost accountant of finance department, general ledger accountant and the deputy head of finance division of Hangzhou Alkali Pump Factory (杭州城泵廠), cost accountant of finance department, general ledger accountant, finance manager of subsidiaries, senior audit executive of internal audit department, audit manager and the general manager of audit department and office director of supervisory committee of Eastern Communications Co., Ltd. (東方通信股份有限公司), the manager of audit department and manager of accounting department of Beijing Teamsun Technology Co., Ltd. (華勝天成科技股份有限公司), the chief accountant and general manager of finance department of Kunhe Real Estate Corporation Limited (坤和房地產集團有限公司), the general manager of corporate management department of Putian Eastern Communications Group Co., Ltd. (普天東方通信集團有限公司) and the general manager of the finance department of China Potevio Company Limited. Ms. Xu has extensive experience in financial management and internal control management.

Ms. Liu Yun, aged 45, a master's degree holder, has a master's degree in Economics (majoring investment economics) from Central University of Finance and Economics. She is currently an executive Director of the ninth session of the Board of the Company and the deputy general manager of Putian Innovation and Entrepreneurship Management Co., Ltd. (普天創新創業管理有限公司), and concurrently serves as a director of Shanghai Putian Kechuang Electronics Co., Ltd. (上海普天科創電子有限公司), Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司), Hangzhou HONYAR Electrical Co., Ltd (杭州鴻雁電器有限公司) and Putian Logistics Technology Co., Ltd (普天物流技術有限公司). Ms. Liu had served as general manager assistant of the Investment Department of China National Textiles Import & Export Corporation, general manager assistant of Chinatex International Apparel Co., Ltd., finance director of the Preparatory Office of Infocex LLC Beijing Office and the investment management supervisor, investment management manager and deputy general manager of Enterprise Development Department of China Potevio Company Limited. Ms. Liu has extensive experience in finance, economic management and investment.

REPORT OF THE DIRECTORS

Independent Non-executive Directors

Ms. Mao Yaping, aged 52, holds the Certificate of Certified Public Accountants, the Certificate of Expert Reviewer Qualification of Sichuan Province, the Certificate of Expert Reviewer Qualification of Sichuan Provincial Government and the Certificate of Senior Consultant. She is an independent non-executive director of the ninth session of the Board of the Company. She serves as the legal representative and the CPA-in-chief of Sichuan Xieyi Accounting Firm (四川協誼會計師事務所). She has been engaged by the People's Government of Sichuan Province as an expert for engineering and economics and PPP projects. She has been engaged by Sichuan Provincial Finance Department as an expert for economics. Ms. Mao has presided over and accomplished various accounting, auditing, financial and economic analysis, research on regional economy, industry development planning and engineering and construction consultation in Sichuan Province and Chengdu. Ms. Mao has extensive experience in financial, economics and management and project review. Ms. Mao joined the Company in April 2018.

Mr. Xiao Xiaozhou, aged 65, has a bachelor's degree in engineering from Southwest Jiaotong University. He is an independent non-executive director of the ninth session of the Board of the Company. Mr. Xiao served as the deputy chief engineer, the head of production department and the deputy factory head of Liu Zhou Locomotive and Rolling Stock Factory (柳州機車車輛廠), the senior engineer of the operation and sales department of China National Railway Locomotive & Rolling Stock Industry Corporation (中國鐵路機車車輛工業總公司), the head of the marketing department and the marketing and sales division, the general manager of the truck business division and the deputy chief economist of CSR Corporation, the chairman of the board of directors of CSR Investment & Leasing Co. Ltd. (南車投資租賃有限公司) and the assistant to the president of CSR Corporation Limited. Mr. Xiao has over 40 years of experience in business management, production management and marketing management. He was an independent non-executive Director of the seventh and eighth session of the Board of the Company. Mr. Xiao joined the Company in July 2013.

Mr. Feng Gang, aged 53, has a doctor's degree in philosophy from Chinese University of Hong Kong and a master's degree and bachelor's degree in electronics and communication from the University of Electronic Science and Technology of China ("UESTC"). He is an independent non-executive director of the ninth session of the Board of the Company. He is the professor and doctoral advisor of the National Key Laboratory of Science and Technology on Communications of UESTC. Mr. Feng was previously a teaching assistant of the information system office and a lecturer of the department of radio technology of UESTC. Mr. Feng worked at the School of Electrical & Electronic Engineering, division of Information Communication Institute of Singapore ("ICIS") of Nanyang Technological University ("NTU"), and later the associate professor at the Network Technology Research Centre of NTU. Mr. Feng joined the Company in November 2018.

Independence of Independent Non-executive Directors

The Company has received annual written confirmation of independence from all independent non-executive Directors under Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent.

Service Contracts of Directors

Each of the existing Directors appointed or re-elected on 13 November 2018 has entered into a service contract with the Company, with a term of three years commencing from 13 November 2018 to the date when a new session of the Board is elected at an extraordinary general meeting to be held in 2021. Mr. Wu Changlin and Mr. Hu Jiangbing have also entered into service contracts with the Company, with a term commencing from 22 November 2018 to the expiry date of the term of the ninth session of the Board. All the executive Directors will not receive Director's remuneration. Instead, their remuneration will be determined by China Putian with reference to his specific administrative duties and upon assessment by China Putian in accordance with relevant requirements of the PRC and its internal remuneration management regulations. The remuneration for each independent non-executive Director for his/her services provided under his/her service contract is RMB50,000 per annum (before tax).

Save as disclosed above, no Director has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

2. Supervisors

Mr. Zheng Zhili, aged 59, is a Supervisor and the chairman of the ninth session of the Supervisory Committee of the Company. He is a Party member, the Secretary of the Discipline Inspection Commission and the chief legal advisor of China PUTIAN Corporation Limited, and concurrently serves as the secretary to party committee of Putian Eastern Communications Group Co., Ltd. (普天東方通信集團有限公司) and a supervisor of Putian New Energy Co., Ltd. (普天新能源有限責任公司). Mr. Zheng served as the secretary and a regimental officer of the office of political department of the Commission of Science Technology and Industry for National Defense, a supervisor at department level and deputy director of the office of supervisory bureau under the Discipline Inspection Commission of the State Economic and Trade Commission, the deputy director and a discipline inspector at deputy bureau chief level of the office of supervisory bureau of the discipline inspection commission of the State-owned Assets Supervision and Administration Commission of the State Council and the chairman of labor union of China PUTIAN Corporation Limited. He was a Supervisor of the seventh and eighth session of Supervisory Committee of the Company. Mr. Zheng joined the Company in November 2012 and has extensive experience in corporate management and audit supervision.

Mr. Xiong Ting, aged 56, obtained a bachelor's degree in university. He is the Supervisor of the ninth session of the Supervisory Committee, the deputy secretary of the party committee, the secretary of the Disciplinary Commission and a chairman of the labor union of the Company. Mr. Xiong served as the secretary of the league committee, the factory manager of the branch factory and the director of the office of Chengdu Cable Factory of the Ministry of Posts and Telecommunications (郵電部成都電纜廠), assistant to general manager of the Company, manager of the supplier company and supervisor of the fifth, sixth, seventh and eighth sessions of the Supervisory Committee of the Company. Mr. Xiong joined the Company in 1982 and has over ten years of experience in corporate administrative management.

Mr. Liu Jun, aged 49. Mr. Liu graduated from Chengdu Radio and Television University with a College degree in property management. He is an assistant engineer. Mr. Liu currently is manager of the Party-Masses Work Department and the vice chairman of the labor union of the Company. Mr. Liu joined the Company in August 1990, and served as a technician, assistant engineer and factory assistant of power plant, assistant manager of the property management department and the deputy director of Party-Masses Work Department. Mr. Liu was democratically elected by the staff of the Company at the labor congress as a staff representative Supervisor of the ninth session of the Supervisory Committee of the Company.

Service Contracts of Supervisors

Each of the existing Supervisors appointed or re-elected on 13 November 2018 has entered into a service contract with the Company, with a term of three years commencing from 13 November 2018 to the date when a new session of the Supervisory Committee is elected at an extraordinary general meeting to be held in 2021. Terms of office of all Supervisors are renewable for re-election or reappointment upon expiration.

Save as disclosed above, none of the Supervisors have entered into any service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

3. Company Secretary

Mr. Shum Shing Kei, aged 47, joined the Company on 1 August 2017. Mr. Shum holds a Bachelor Degree (Hon) in Accountancy from Hong Kong Polytechnics and a Master Degree in Financial Management from University of London, United Kingdom. Mr. Shum is a fellow member of The Hong Kong Institute of Certified Public Accountants and has extensive working experience in financial management and company secretarial fields.

4. Senior Management

Ms. Yu Qian, aged 50, a postgraduate, is the Chief Financial Officer of the Company. Ms. Yu joined the Company in November 2011, and was once the Chief Financial Officer of Chengdu SEI (a large optical fiber manufacturer in the PRC, which is affiliated to the Company). Ms. Yu is well experienced in financial supervision in the communication industry and is familiar with the financial position of the Company and the management and operation of stock companies.

Mr. Liu Wenzao, aged 52, a bachelor's degree holder, has a bachelor's degree in electrical insulation and cable engineering from Xi'an Jiaotong University. He is currently a deputy general manager of the Company and the general manager of Chengdu SEI Optical Fiber Co., Ltd., a subsidiary of the Company. He has over 20 years of experience in the optical telecommunication industry.

Ms. Dai Xiaoyi, aged 45, has a college degree in fiber-optic communication from faculty of telecommunication engineering of Chongqing Institute of Posts and Telecommunications. Ms. Dai joined the Company in 1995. She served as a technician of quality division, an engineer of examination center, the deputy director and director of Party-Masses Work Department, the vice chairman of the labor union, the deputy secretary of Disciplinary Commission, assistant to general manager, etc.

REPORT OF THE DIRECTORS

ENVIRONMENT, EMPLOYEES AND SOCIAL RESPONSIBILITY

Environmental Protection

The Company has established an environmental management system in accordance with the GB/T 24001–2004 (idt ISO 14001:2004). Adhering to the principle of “care for environment”, the Company has identified and evaluated environmental factors and dangerous sources based on the Evaluation and Control Procedures for Environmental Factors and the Evaluation and Control Procedures for Identification of Dangerous Sources. In compliance with laws and regulations, the emission of waste met the relevant requirements. Incidents such as pollution, fire, explosion, electric shock and traffic accidents were prohibited and energy and resources were saved under the requirements of the system. The environmental management system continued to operate effectively.

Employees

In strict compliance with laws and regulations including the Labor Law and the Labor Contract Law of the PRC, the Group has entered into labor contracts with all its staff and contributed to the social insurance for staff in accordance with the regulatory requirements. Sexual or racial discrimination, child labor and forced labor are strictly prohibited, and the remunerations for all male and female staff are solely based on their positions. To protect the rights to participate, express opinions and supervise of our staff, the Company has established a democratic management system with labor congress and labor union as the core. All employees are encouraged to report to the Company at any time for any non-compliance incidents such as employment of child labor and forced labor during the course of recruitment and operation.

Staff and Remuneration Policy of the Group

As at 31 December 2018, the Group had 875 staff members.

The Group has formulated Measures for Employee Performance Management of the Company (《公司員工績效管理辦法》), Measures for Performance Management of Managers (grade III and above) of the Company (《公司三級以上經理績效管理辦法》) and Measures for Remunerations and Incentives Management (《薪酬激勵管理辦法》) and Measures for the Work Plan System Management (《工作計劃系統管理辦法》), by which the Group has established a complete remuneration system and specified the remuneration structure, remuneration standards and remuneration management. Employees are remunerated based on their position levels, working ability and performance levels, and they are awarded with performance bonus and remuneration adjustment according to their results of performance assessment. Other benefits offered to the staff include retirement benefits plans, medical benefits plans and housing fund plans. The Group also provides technical trainings to its staff.

Retirement Benefits Plans for Employees

According to the “Labor Law of the People’s Republic of China” and the relevant laws and regulations, the Company and its subsidiaries shall contribute to basic pension insurance for their employees. Pension will be paid by authorities of social insurances to employees in accordance with the law when such employees reach the retirement age stipulated by the nation or leave the labor force for some reasons. The Group will then be no longer responsible for providing further retirement benefits to the employees.

Basic Medical Insurance Scheme for Employees

The Company has participated in the basic medical insurance scheme for employees in Chengdu since October 2002. The Company made a total contribution amounting to approximately RMB2.90 million in the Year (Previous Year: approximately RMB2.91 million). The Board believes that the participation in the basic medical insurance scheme for employees did not have any significant impact on the financial position of the Company.

REPORT OF THE DIRECTORS

Social Responsibility

During the Year, the Company strictly complied with relevant laws, regulations and policies. In particular, the Company paid all taxes in a timely manner, duly fulfilled its responsibility of energy-saving and emission reduction and achieved energy-saving and emission reduction targets. The Company adopted strict accountability for production safety and allocated extra resources to maintain safe production to prevent material safety incidents. The Company also entered into and fulfilled labor contracts with employees in accordance with the law and fully paid social insurance on time. The annual subsidy for students offered by Chengdu SEI, a subsidiary of the Company, amounted to RMB30,000 (2017: RMB30,000).

MATERIAL INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" in this report, there were no other transactions, arrangements and contracts of significance relating to the Company's business (to which the Company or any of its subsidiaries was a party) in which any Director or Supervisor or their associated entity had significant interests, whether directly or indirectly at any time during the Year and at the end of the Year.

COMPETING BUSINESS INTERESTS OF DIRECTORS AND SUPERVISORS

During the Year, none of the Directors nor Supervisors have any interests in a business which directly or indirectly competes or may compete with the business of the Company (excluding the Company's business) and is discloseable under the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at 31 December 2018, none of the Directors, Supervisors and Chief Executives or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under Part XV of the SFO), or which would have to be, pursuant to section 352 of the SFO, entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (for this purpose, the relevant provisions of the SFO were interpreted as the same also applicable to Supervisors).

SHAREHOLDING OF DIRECTORS AND SUPERVISORS

At no time during the Year did any of the Directors or Supervisors hold any shares of the Company. None of the Directors and Supervisors had any interests in the share capital or debentures of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and Supervisors, their spouses or children under 18 years old was granted rights to purchase share capital or debentures of the Company or any of its associated corporations and there was no exercise of such rights by any of the said persons.

REPORT OF THE DIRECTORS

PURCHASE AND SALE OF SHARES OR DEBENTURES BY DIRECTORS AND SUPERVISORS

At no time during the Year was the Company or any of its subsidiaries, holding companies or any fellow subsidiaries a party to any arrangement which enables the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporations.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details about the remuneration of Directors, Supervisors and Senior Management are set out in note X to the financial statements on pages 165 to 167 of this annual report.

FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals in the Group during the Year are set out in note X to the financial statements on page 168 of this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group are set out in note V to the financial statements on page 137 of this annual report.

PLEDGE OF ASSETS

During the Year, due to sufficient working capital for production and operation, the Group did not obtain any new loan from banks which was secured by the Group's assets (2017: the Group did not obtain any loan from banks which was secured by the Group's assets). As of 31 December 2018, the Group did not pledge any land use right as security (2017: Nil).

PRE-EMPTIVE RIGHTS

Pursuant to the articles of association of the Company (the "**Articles of Association**") and the Company Law of the PRC, there are no pre-emptive rights which require the Company to offer new shares of the Company to the existing Shareholders in proportion to their respective shareholdings.

CONVERTIBLE SECURITIES, SHARE OPTIONS, WARRANTS OR RELEVANT ENTITLEMENTS

During the year ended 31 December 2018, the Group did not issue any convertible securities, share options, warrants or relevant entitlements.

PERMITTED INDEMNITY PROVISION

The Company has purchased and maintained liability insurance for its Directors and Senior Management for any possible legal liabilities arising from the performance of their duties, so that they are secured harmless against all actions, costs, losses, damages and expenses which they may incur or sustain arising from any act of execution of their duties in the Company.

Significant Events

1. Continuing connected transactions

The following connected transactions of the Company are subject to the requirements relating to reporting, announcement, and independent shareholders' approval under Chapter 14A of the Listing Rules. Details of these transactions are set out in the announcement dated 24 May 2017, a supplementary circular dated 16 June 2017, and the announcement dated 28 December 2017. On 30 June 2017, these transactions were passed by way of ordinary resolutions at the 2016 annual general meeting of the Company.

Potevio Framework Sales Agreement

On 24 May 2017, the Company entered into the Potevio Framework Sales Agreement for a term of two years commencing from 1 January 2018, in respect of (i) the sale of certain wire, cables, optical fibers, telecommunication components and parts by the Group to Potevio Group; and (ii) the purchase of electrical products, lighting products, piping products and smart products from Potevio Group.

China Potevio is the controlling shareholder of the Company and a wholly-owned subsidiary of Potevio Group. Therefore, transactions between the Group and the Potevio Group constitute connected transactions of the Company under the Listing Rules.

The principal terms of the purchase from Potevio Group under the Potevio Master Framework Agreement are as follows:

| | | |
|----------------|---|--|
| Date | : | 24 May 2017 |
| Parties | : | The Company and China PUTIAN Corporation Limited |
| Subject matter | : | The Group shall supply wire, cables, optical fibers, telecommunication components and parts to Potevio Group based on the requirements and demands of Potevio Group from time to time during the tenure of the Potevio Framework Sales Agreement |
| Tenure | : | 1 January 2018 to 31 December 2019 |

The selling prices of the wire, cables, optical fibers, telecommunication components and parts sold by the Group to the Potevio Group are not fixed and to be determined in accordance with prevailing market prices that is comparable to the price offered by the Group to its other independent customers with similar transaction volume and to be agreed between the parties.

The annual caps of the sales under the Potevio Master Framework Agreement for the years ended 31 December 2018 and 2019 are RMB140,000,000 and RMB160,000,000, respectively.

During the year ended 31 December 2018, the aggregate payment received by the Company from Potevio Group was approximately RMB3,891,000.

REPORT OF THE DIRECTORS

The principal terms of the purchase from Potevio Group under the Potevio Master Framework Agreement are as follows:

| | | |
|----------------|---|---|
| Date | : | 24 May 2017 |
| Parties | : | The Company and China PUTIAN Corporation Limited |
| Subject matter | : | Potevio Group shall supply electrical products, lighting products, piping products and smart products to the Group based on the requirements and demands of the Group from time to time during the tenure of the Potevio Master Framework Agreement |
| Tenure | : | 1 January 2018 to 31 December 2019 |

The purchase prices of the electrical products, lighting products, piping products and smart products purchased by the Group from Potevio Group are not fixed and to be determined in accordance with prevailing market prices that is comparable to the price offered to the Group by its other independent supplier with similar transaction volume and to be agreed between the parties.

The annual caps of the purchase under the Potevio Master Framework Agreement for the years ended 31 December 2018 and 2019 are RMB170,000,000 and RMB200,000,000, respectively.

During the year ended 31 December 2018, the aggregate payment made by the Company to Potevio Group was approximately RMB46,514,000.

Sumitomo Framework Purchase Agreement

On 28 December 2017, the Company entered into the Sumitomo Framework Purchase Agreement for a term of one year commencing from 1 January 2018, in respect of the purchase of optical fiber preform and paints and subscription for related technical services by the Group from Sumitomo Electric Industries, Ltd. ("**Sumitomo Electric**") and its subsidiaries (collectively, "**Sumitomo Electric Group**").

As Sumitomo Electric is a substantial shareholder of a non-wholly owned subsidiary of the Group, Sumitomo Electric is a connected person of the Group at subsidiary level under the Listing Rules.

The principal terms under the Sumitomo Framework Purchase Agreement are as follows:

| | | |
|----------------|---|--|
| Date | : | 28 December 2017 |
| Parties | : | The Company and Sumitomo Electric |
| Subject matter | : | The Group shall purchase optical fiber preform and paints and subscribe for related technical services from Sumitomo Electric Group from time to time during the tenure of the Sumitomo Framework Purchase Agreement |
| Tenure | : | 1 January 2018 to 31 December 2018 |

REPORT OF THE DIRECTORS

The selling prices of the optical fiber preform and paints sold by Sumitomo Electric Group to the Group are not fixed and to be determined in accordance with prevailing market prices that is comparable to the price offered to the Group by its other independent customers and to be agreed between the parties.

The annual caps under the Sumitomo Framework Purchase Agreement for the year ended 31 December 2018 is RMB240,000,000.

During the year ended 31 December 2018, the aggregate payment made by the Company to Sumitomo Electric was approximately RMB136,080,000.

Confirmations from the independent non-executive Directors and auditors of the Company

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with the Listing Rules. A copy of the Auditors' letter has been provided by the Company to the Stock Exchange.

The auditor of the Company has confirmed to the Board that nothing has come to their attention that causes them to believe that the above continuing connected transactions for the year ended 31 December 2018:

- (i) have not been approved by the Board;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Group where the transactions involve the provision of goods or services by the Group;
- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- (iv) have exceeded the relevant annual caps as disclosed in the previous announcements dated 24 May 2017 and 28 December 2017 of the Company.

Confirmations from the Company

The Company has conducted a review of its continuing connected transactions and confirmed that all such transactions have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

2. Related party transactions

Related party transactions of the Company are set out in note X to the financial statements. For those related party transactions which constituted connected transactions or continuing connected transactions under the Listing Rules, they are set out in the paragraph headed “Continuing Connected Transactions” on pages 27 to 29 of this annual report. It has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

3. Resignation of independent non-executive director and addition of independent non-executive director

On 31 January 2018, Mr. Choy Sze Chung, Jojo resigned as an independent non-executive director, chairman of the audit committee and the nomination committee and member of the strategic development committee and the remuneration and appraisal committee of the Company as he wished to dedicate more time to his personal developments. In addition, Mr. Lin Zulun, the independent non-executive director of the Company, was appointed and acted as the chairman of the nomination committee on the same day.

Subsequent to the resignation of Mr. Choy Sze Chung, Jojo, the number of independent non-executive directors and members of the audit committee of the Company falls below the minimum number requirement under Rules 3.10(1) and 3.21 of the Listing Rules, and the required composition of the remuneration and appraisal committee and nomination committee fails to meet the requirements under Rule 3.25 and code provision A.5.1 of Appendix 14 to the Listing Rules. The Board will identify an appropriate person to fill the vacancy of independent non-executive director, member of audit committee and member of remuneration and appraisal committee within three months from the date of resignation pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules; and to fill the vacancy of member of nomination committee and member of strategic development committee.

On 13 April 2018, Ms. Mao Yaping (“Ms. Mao”) was appointed as an independent non-executive director of the Company, and her term would expire upon the expiry of the term of the eighth session of the Board. Ms. Mao has also been appointed as the chairman of the audit committee and a member of the nomination committee, the remuneration and appraisal committee and the strategic development committee of the Board of the Company.

Following the appointment of Ms. Mao as an independent non-executive director and the chairman of the audit committee and a member of the nomination committee, the remuneration and appraisal committee and the strategic development committee of the Company, the Company has been in compliance with the minimum number requirements on the number of independent non-executive directors and members of the audit committee under Rules 3.10(1) and 3.21 of the Listing Rules, requirements regarding the proportion of independent non-executive directors in the Board being not less than one third under Rule 3.10A of the Listing Rules, and requirements regarding required member composition of the remuneration and appraisal committee, the nomination committee and the strategic development committee of the Company as set out in Rule 3.25 of the Listing Rules, Code Provision A.5.1 in Appendix 14 to the Listing Rules and Implementation Rules of Board Committees of the Company.

4. **Publication of press release by the Stock Exchange to censure the Company and to censure or criticize a number of current and former directors of the Company**

Reference is made to the press release (the “**Press Release**”) published by the Stock Exchange on 5 July 2018, in relation to, among other things, (i) the Company’s breaches of the then Rules 14A.35, 14A.37 to 14A.40, 14A.46 to 14A.48 (in effect before 1 July 2014), and the current Rules 14A.35 and 14A.36 (equivalent to the then Rules 14A.47 and 14A.48 respectively) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”); and (ii) the censure or criticism of a number of current and former directors of the Company for failing to use their best endeavours to procure the Company’s Listing Rules compliance, breaching their obligations under the declarations and undertakings with regard to directors given to the Stock Exchange.

Pursuant to the Press Release, the Listing Committee of the Stock Exchange directed the Company to (i) retain an independent professional adviser satisfactory to the Listing Committee and/or the Listing Department of the Stock Exchange (the “**Department**”) to conduct a thorough review of and make recommendations to improve the Company’s internal controls to ensure compliance with the Listing Rules (the “**Internal Review**”); and (ii) appoint an independent compliance adviser (as defined under Rule 3A.01 of the Listing Rules) satisfactory to the Department on an ongoing basis for consultation on the Listing Rules compliance for two years.

The Company has appointed Gram Capital Limited (“**Gram Capital**”), being a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong) to be its (i) professional adviser for the Internal Review (the “**Professional Adviser**”); and (ii) compliance adviser (the “**Compliance Adviser**”) for a term of two years with effect from 13 July 2018 to 12 July 2020.

5. **Election of new session of the Board and the Supervisory Committee and change in executive directors**

According to the Articles of Association, each session of the Board shall have a term of three years and each director shall be eligible for re-election. Directors are elected at the general meeting of the Company from candidates who are current directors or are nominated by shareholders holding 3% or more of shares in issue of the Company. The term of three years of the eighth session of the Board of the Company from 2015 had expired. The eighth session of the Board of the Company was elected at the first 2018 extraordinary general meeting on 12 November 2018. Mr. Zhang Xiaocheng, Mr. Wang Micheng, Mr. Han Shu, Ms. Xu Liying, Mr. Fan Xu and Ms. Liu Yun were elected as directors of the ninth session of the Board. Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Feng Gang were elected as independent non-executive directors of the ninth session of the Board. Meanwhile, Mr. Zheng Zhili and Mr. Xiong Ting were elected as Supervisors of the ninth session of the Supervisory Committee. In addition, Mr. Liu Jun was elected as the staff representative by one-third of the staff representative Supervisors of the Supervisory Committee through a democratic election on 27 July 2017.

On 22 November 2018, due to their wish to devote more time in their personal commitments, Mr. Zhang Xiaocheng (“Mr. Zhang”) has resigned as an executive director, the chairman of the Board (the “**Chairman**”), legal representative of the Company and the chairman of the strategic development committee of the Company (the “Strategic Development Committee”); Mr. Wang Micheng (“**Mr. Wang**”) has resigned as the vice chairman of the Board, and member of Strategic Development Committee but remained as an executive director; and Mr. Fan Xu (“**Mr. Fan**”) has resigned as an executive director and member of the nomination committee of the Company (the “**Nomination Committee**”). Mr. Wu Changlin has been appointed as an executive director and the Chairman of the Company and the legal representative of the Company, and Mr. Hu Jiangbing has been appointed as an executive director and the vice chairman of the Company, with effect from 22 November 2018 until the conclusion of the next annual general meeting of the Company.

REPORT OF THE DIRECTORS

MATERIAL LITIGATION

To the knowledge of the Board, none of the Company or other members of the Group was involved in, among other things, any material litigation or arbitration during the Year.

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE CODE

During the Year, save as disclosed in this annual report, the Company has complied with the provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Details are set out in the corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors and supervisors of the Company.

After specific enquiries to the directors and supervisors of the Company, the Board confirmed that all directors and supervisors had fully complied with the codes as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules during the Year.

AUDIT COMMITTEE OF THE BOARD (“AUDIT COMMITTEE”) AND REVIEW OF THE ANNUAL RESULTS

The Company established the Audit Committee in accordance with the Listing Rules. The members of the Audit Committee are Ms. Mao Yaping (Chairman of the Audit Committee), Mr. Xiao Xiaozhou and Mr. Feng Gang, all being the independent non-executive directors of the Company. The Audit Committee is responsible for matters such as conducting reviews of the risk management and internal control and financial reports and has reviewed the Company's audited financial statements and annual results for 2018.

The Audit Committee considered that the audited financial statements and annual results of the Company for 2018 were in full compliance with the requirements of the applicable accounting standards, laws and regulations and appropriate disclosure was made.

AUDITORS

The Company reappointed Pan-China Certified Public Accountants as the auditors of the Company at the annual general meetings held on 30 June 2018.

The auditors will retire at the forthcoming annual general meeting and is eligible for re-appointment at the forthcoming annual general meeting. The financial statements of the Group prepared in accordance with the Accounting Standards issued by Ministry of Finance of the PRC have been audited by the auditors, Pan-China Certified Public Accountants.

By order of the Board

Wu Changlin

Chairman

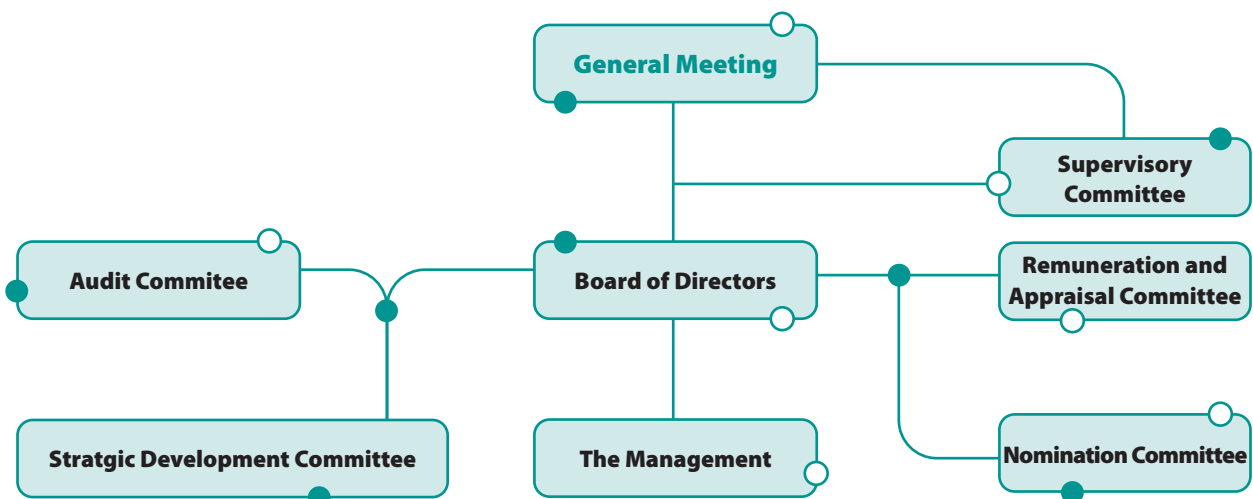
22 March 2019

CORPORATE GOVERNANCE REPORT

The Board hereby reports to the Shareholders in respect of the Company's undertakings and its performance on corporate governance for the year ended 31 December 2018 (the "Year").

The Company attaches great importance to corporate governance principles that emphasize a quality Board, effective internal controls, stringent disclosure practices and transparency and accountability. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture. The Company is committed to maintain a good framework of corporate governance and to comply with applicable statutory and regulatory requirements with a view to assure the conduct of the management of the Company as well as protecting the interests of all Shareholders. The Board mainly assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

Set out below is the corporate governance structure of the Company:



CORPORATE GOVERNANCE REPORT

GOVERNANCE STRUCTURE

(a) Corporate Governance and Corporate Governance Code

The company acknowledges the need and importance of corporate governance as one of the key elements in creating shareholder's value. Despite the Company failed to act according to the Listing Rules to make announcements and seek shareholders' approval for some continuing connected transactions in the financial years of 2013 and 2014 and the financial year of the first half of 2015 of which most of such continuing connected transactions were related to purchase or sales of optic fiber and relevant commodities from or to connected persons, in view of achieving good corporate governance, during the Year, the Company adopted remedial measures including publishing announcement, and seeking shareholders' approval and ensuring that information was announced in a timely manner. The Board tried hard to review and improve disclosure about information and compliance matters of the Company and strengthened information reporting for each department and enhanced the training for each staff in respect of the information announcement requirement of the Listing Rules.

Reference is made to the press release (the "**Press Release**") published by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 July 2018, in relation to, among other things, (i) the Company's breaches of the then Rules 14A.35, 14A.37 to 14A.40, 14A.46 to 14A.48 (in effect before 1 July 2014), and the current Rules 14A.35 and 14A.36 (equivalent to the then Rules 14A.47 and 14A.48 respectively) of the Listing Rules; and (ii) the censure or criticism of a number of current and former directors of the Company for failing to use their best endeavours to procure the Company's Listing Rules compliance, breaching their obligations under the declarations and undertakings with regard to directors given to the Stock Exchange.

Pursuant to the Press Release, the Listing Committee of the Stock Exchange directed the Company to (i) retain an independent professional adviser satisfactory to the Listing Committee and/or the Listing Department of the Stock Exchange (the "**Department**") to conduct a thorough review of and make recommendations within two months from the Press release to improve the Company's internal controls to ensure compliance with the Listing Rules (the "**Internal Review**"); and (ii) appoint an independent compliance adviser (as defined under Rule 3A.01 of the Listing Rules) satisfactory to the Department on an ongoing basis for consultation on the Listing Rules compliance for two years.

The Company has appointed Gram Capital Limited ("**Gram Capital**"), being a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong) to be its (i) professional adviser for the Internal Review (the "**Professional Adviser**"); and (ii) compliance adviser (the "**Compliance Adviser**") for a term of two years with effect from 13 July 2018 to 12 July 2020.

Subsequent to the resignation of Mr. Choy Sze Chung, Jojo as an independent non-executive director of the Company with effect from 31 January 2018, the number of independent non-executive directors and members of the Audit Committee of the Company were not in compliance with the minimum number requirements under Rules 3.10(1) and 3.21 of the Listing Rules. The proportion of independent non-executive directors in the Board also fell below the minimum requirement under Rule 3.10A of the Listing Rules, and the compositions of the Remuneration and Appraisal Committee and the Nomination Committee were not in compliance with Rule 3.25 of the Listing Rules and Code Provision A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. During the period, the Board has been seeking suitable candidates. Effective from 13 April 2018, Ms. Mao Yaping has been appointed as an independent non-executive director and a member of various Board committees to fill the relevant vacancies. The Company will strive to maintain a high standard of corporate governance and transparency of the Company and to safeguard the interest of Shareholders and the Company as a whole. Save as disclosed above, for the Year, the Company had applied the principles and complied with the applicable code provisions, and also complied with certain recommended best practices, of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Group's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to Shareholders.

The Company will, from time to time, review and enhance its corporate governance practices to ensure that these practices continue to meet the requirements of the CG Code.

(b) Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the guidelines for the Directors' dealing in the securities of the Company. Upon specific enquiries of all the Directors and Supervisors, each of them confirmed that they have complied with the required standards set out in the Model Code during the Year in relation to their securities dealings, if any.

(c) The Board of Directors

The ninth session of the Board was elected at the first extraordinary general meeting held on 13 November 2018. The Board currently comprises a total of 9 members, with 6 executive directors and 3 independent non-executive directors.

Executive Directors

Mr. Wu Changlin (*Chairman*, appointed on 22 November 2018)

Mr. Zhang Xiaocheng (resigned on 22 November 2018)

Mr. Hu Jiangbing (*Vice Chairman*, appointed on 22 November 2018)

Mr. Wang Micheng

Mr. Han Shu

Ms. Xu Liyang

Ms. Liu Yun

Mr. Fan Xu (resigned on 22 November 2018)

Independent Non-executive Directors

Mr. Choy Sze Chung, Jojo (resigned on 31 January 2018)

Ms. Mao Yaping

Mr. Xiao Xiaozhou

Mr. Lin Zulun (retired on 13 November 2018)

Mr. Feng Gang (appointed on 13 November 2018)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Each of the existing Directors appointed or re-elected on 13 November 2018 has entered into a service contract with the Company, with a term of three years, commencing from 13 November 2018 to the date when a new session of Board is elected at an extraordinary general meeting to be held in 2021. Mr. Wu Changlin and Mr. Hu Jiangbing have also entered into service contracts with the Company, with a term commencing from 22 November 2018 to the date of the forthcoming annual general meeting to be held in 2019. Members of the Board come from different backgrounds and they have extensive experience in different sectors including information technology, securities and finance, wire and cable industry, corporate management, financing accounting, project management and capital operation, etc. Save as otherwise disclosed, members of the Board are unrelated to one another. The Board of Directors of the Company is able to fulfill the requirements set out in rules 3.10(1) and (2) of the Listing Rules.

Directors are elected in or replaced by way of the general meetings. Shareholders, the Board or the Supervisory Committee are entitled to nominate a candidate for directorship by written notice. Directors have a term of office of three years and are eligible to offer themselves for re-appointment upon expiry of the term.

CORPORATE GOVERNANCE REPORT

The main responsibilities of the Board include overseeing all major matters of the Company, such as the formulation and approval of all policy matters and overall strategies, internal control and risk management and supervision of managerial staff, senior executives and employees. Its main duties are to exercise management decisions power with the authority delegated by the general meetings in respect of the Company strategic development and planning, business planning, management structure, investment and financing, human resources and manpower and financial control. The Board is also responsible for developing and reviewing the Company's policies and practices on compliance with legal and regulatory requirements, developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors. The Board has to make decisions that are of the best interests of the Company and the Shareholders and all substantial transactions or transactions of the Company with conflicts of interests are to be decided by the Board. Set out below are the corporate governance functions carried out by the Board:

- (a) to determine the policy of the corporate governance;
- (b) to develop and review the Company's policies and practices on corporate governance and make recommendations;
- (c) to review and monitor the training and continuous professional development of director and senior management;
- (d) to review and monitor company's policies and practices on compliance with legal and regulatory requirements;
- (e) to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and
- (f) to review the company's compliance with code and disclosure in corporate governance report.

During the Year, 10 meetings of the Board of the Company were held to discuss the Company's operating results, overall strategies, investment schemes as well as operation and financial performance. Directors could attend meetings in person or through other electronic communication devices.

CORPORATE GOVERNANCE REPORT

Set out below are the attendance of board meeting and Shareholders meeting of each Director during the Year:

| Name of Directors | Board Meeting Attended/ Eligible to Attend | 2017 Annual General Meeting Attended |
|--|---|---|
| Executive Directors | | |
| Mr. Wu Changlin (<i>Chairman</i>) ¹ | 2/2 | – |
| Mr. Zhang Xiaocheng ² | 7/9 | |
| Mr. Hu Jiangbing (<i>Vice Chairman</i>) ³ | 2/2 | – |
| Mr. Han Shu | 9/10 | |
| Mr. Wang Micheng | 10/10 | ✓ |
| Ms. Xu Liying | 9/10 | |
| Ms. Liu Yun | 9/10 | |
| Mr. Fan Xu ⁴ | 8/9 | |
| Independent Non-executive Directors | | |
| Mr. Choy Sze Chung, Jojo ⁵ | – | |
| Ms. Mao Yaping | 8/8 | ✓ |
| Mr. Xiao Xiaozhou | 10/10 | ✓ |
| Mr. Lin Zulun ⁶ | 7/7 | ✓ |
| Mr. Feng Gang | 3/3 | – |

¹ Mr. Wu Changlin was appointed as an executive Director on 22 November 2018.

² Mr. Zhang Xiaocheng resigned as an executive Director on 22 November 2018.

³ Mr. Hu Jiangbing was appointed as an executive Director on 22 November 2018.

⁴ Mr. Fan Xu resigned as an executive Director on 22 November 2018.

⁵ Mr. Choy Sze Chung, Jojo resigned as an independent non-executive Director on 31 January 2018.

⁶ Mr. Lin Zulun retired as an independent non-executive Director on 13 November 2018.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable standards and to report on material uncertainties, if any, relating to events or conditions that may cast significance to doubt upon the Company's ability to continue as a going concern. The Directors are responsible for overseeing the preparation of financial statements of the Group with a view to ensuring that such financial statements give a true and fair view of the financial position of the Group that relevant statutory and regulatory requirements and applicable accounting standards are complied with. The Directors also acknowledge their responsibilities to ensure the financial statements of the Group are published in a timely manner. The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

The reporting responsibilities of the Company's external auditors on the financial statements of the Group are set out in the "Auditor's Report" in this annual report. Liability insurance for Directors and senior management officers of the Company was maintained by the Company with coverage of any legal liabilities which may arise in the course of performing their duties.

CORPORATE GOVERNANCE REPORT

Independent non-executive directors

Although the Company attached great importance to corporate governance, the Company had a vacancy of independent non-executive Director after the resignation of Mr. Choy Sze Chung, Jojo as an independent non-executive Director of the Company on 31 January 2018 until a suitable candidate was identified. Ms. Mao Yaping was duly appointed as independent non-executive Director on 13 April 2018. Upon the appointment of Ms. Mao Yaping, the Company met the requirements of the Listing Rules in relation to the minimum number of independent non-executive directors and their proportion in the Board. The Company has three Independent Non-executive Directors, which complies with the requirement of rules 3.10(1), (2) and 3.10(A) of the Listing Rules. Independent Non-executive Directors were assumed by the persons who are independent of any Directors, Supervisors, Chief Executives and substantial shareholders (as defined in the Listing Rules) or such individuals without any connection thereto (the independent third parties), which complies with the requirement of independence of Listing Rules. According to the Listing Rules, each independent non-executive Director had confirmed his/her independence to the Stock Exchange prior to his/her appointment.

The Company has received written confirmation of independence from all independent non-executive Directors, confirming their independent status to the Company. The Company continues to consider them independent under Rule 3.13 of the Listing Rules. The independent non-executive Directors of the Company play an important role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. They bring an impartial view on issues of the Company's strategies, performance and control. Our independent non-executive Directors possess extensive academic, professional and industry experience and management experience and have provided their independent, constructive and professional advice to the Board. The backgrounds of independent non-executive Directors are also in compliance with the requirements of rule 3.10(2) of the Listing Rules, which requires that at least one independent non-executive Director has appropriate professional qualifications, accounting or related financial management expertise.

The independent non-executive Directors expressed their analysis and opinions in respect of various issues as far as the Shareholders and the Company are concerned, and their extensive experience in business and finance are essential for the smooth development of the Company. The attendance of independent non-executive Directors in Board meeting, either by attending in person or by way of electronic communication, was relatively high.

Board meetings

Meetings of the Board are held regularly and there was satisfactory attendance for board meetings. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. All directors are invited to include matters in the agenda for regular board meetings and Directors can attend board meetings either in person or by electronic means of communication.

Notices of Board meetings or special committees' meetings are delivered to the Directors or special committee members at least 14 days before the meetings for the Directors to prepare for the relevant meetings and incorporate other matters into the agenda. The meeting materials and the agenda of the Board meeting or special committee meeting are distributed to Directors or members of special committees at least 3 days before the meetings to allow sufficient time to enable them to review the relevant materials and prepare for the meetings.

Directors are free to express their views in the meetings. Important decisions will only be made after detailed discussions in the Board meetings. Directors confirm that they have the responsibility to act in the interests of the Shareholders and shall not ignore the interests of minority Shareholders.

CORPORATE GOVERNANCE REPORT

Detailed minutes of meetings are compiled for Board meetings or special committees' meetings. Draft minutes are emailed after meeting for circulation among Directors or special committee members for perusal and comments before being endorsed by the Board or the special committees. All Directors are free to communicate with the company secretary who is responsible for ensuring and advising on compliance with all procedures in connection with the Board and all applicable rules and regulations.

Minutes of Board meetings or special committees' meetings must record in detail issues considered by the Directors during the meeting as well as the resolutions made including any worries or objections put forward by the Directors.

Minutes of Board meetings or special committees' meetings are to be kept by the secretary to the Board to which the Directors have free access. The management shall on their own accord or upon enquiries provide appropriate and sufficient information to the Directors and special committees members and/or respond as soon as possible so as to keep them informed of the Company's latest development to facilitate their performance of duties.

Each Director is provided with a Director's Handbook containing guidance on practice. Provisions of relevant legislations or the Listing Rules are quoted in the Director's Handbook to remind Directors of the need to discharge their responsibilities including disclosure to the supervisory bodies of their interest, potential conflict of interests and details about changes of personal data. The Director's Handbook will be updated from time to time as per changes in laws and regulations as well as the Listing Rules.

The Board and the special committees are provided with sufficient resources for performance of duties including but not limited to hiring consultants as and when necessary with fees borne by the Company. Individual Directors can also engage consultants for advice on any specific issues of the Company with fees borne by the Company. All Directors can obtain from the company secretary timely information and latest development about rules and regulations and other continual responsibilities which directors of listed companies must observe so as to ensure that each Director is informed of his own duties and that the Company implements Board procedures consistently and complies with the laws and regulations as appropriate.

(d) Chairman and General Manager

The Company's Chairman and the General Manager are appointed by the Board. The positions are respectively taken up by Mr. Wu Changlin and Mr. Hu Jiangbing. The role of the Chairman is separate from that of the General Manager so as to delineate their respective areas of responsibility, power and authority. The Chairman focuses on the Group's strategic planning while the General Manager has overall executive responsibility for the Group's development and management. They receive significant support from the directors and the senior management team.

The Chairman has a clear responsibility to ensure that the whole Board receives, in a timely manner, adequate information which must be accurate, clear, complete and reliable. The Board, led by the Chairman, sets the overall directions, strategy and policies of the Company.

The Chairman provides leadership for the Board to ensure that it works effectively, performs its responsibilities and acts in the best interests of the Company. The Chairman is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures.

The Chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings. The Chairman also encourages the Directors to make full and active contributions to the Board's affairs, to voice their concerns or different views and ensure that the decisions fairly reflect the consensus.

CORPORATE GOVERNANCE REPORT

(e) Independent Non-Executive Directors

The Company has three independent non-executive Directors, representing one-third of the directorship. They are assumed by persons totally independent of Directors, Supervisors, Chief Executives and substantial shareholders (as defined in the Listing Rules). Each of the independent non-executive Director has a term of office for three years commencing from 13 November 2018. Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Feng Gang, our independent non-executive Directors, strictly comply with the independent requirements of the Listing Rules. The three independent non-executive Directors assume membership in the audit committee, nomination committee, remuneration and appraisal committee, and strategic development committee under the Board.

(f) Professional Trainings Taken by Directors

Directors shall keep abreast of the responsibilities as a director of the Company and of the conduct, business activities and development of the Company. All Directors are encouraged to participate in continuous professional development to further develop their knowledge and skills. The Company has arranged lawyers' training and in-house trainings for Directors in the form of seminar and reading materials, journals and newsletters. Besides, in view of previous improper handling of continuing connected transactions and information disclosures, the Company has specially arranged training for Directors and relevant senior management on connected transactions and information disclosures. All Directors are encouraged to attend relevant training courses at the Company's expenses. A summary of training received by Directors during the Year according to the records provided by the Directors is as follows:

| Name of Directors | Types of continuous professional training | |
|--|---|---|
| | Corporate governance, regulatory development and other related training | Read articles, publications, newsletter and updates relating to director's duty |
| Executive Directors | | |
| Mr. Wu Changlin (<i>Chairman</i>) ¹ | – | ✓ |
| Mr. Zhang Xiaocheng ² | 3 | ✓ |
| Mr. Hu Jiangbing (<i>Vice Chairman</i>) ³ | – | ✓ |
| Mr. Han Shu | 2 | ✓ |
| Mr. Wang Micheng | 3 | ✓ |
| Ms. Xu Liying | 3 | ✓ |
| Ms. Liu Yun | 3 | ✓ |
| Mr. Fan Xu ⁴ | 3 | ✓ |
| Independent Non-executive Directors | | |
| Mr. Choy Sze Chung, Jojo ⁵ | – | – |
| Ms. Mao Yaping | 3 | ✓ |
| Mr. Xiao Xiaozhou | 3 | ✓ |
| Mr. Lin Zulun ⁶ | 3 | ✓ |
| Mr. Feng Gang | – | ✓ |

¹ Mr. Wu Changlin was appointed as an executive Director on 22 November 2018.

² Mr. Zhang Xiaocheng resigned as an executive Director on 22 November 2018.

³ Mr. Hu Jiangbing was appointed as an executive Director on 22 November 2018.

⁴ Mr. Fan Xu resigned as an executive Director on 22 November 2018.

⁵ Mr. Choy Sze Chung, Jojo resigned as an independent non-executive Director on 31 January 2018.

⁶ Mr. Lin Zulun retired as an independent non-executive Director on 13 November 2018.

(g) Remuneration and Appraisal Committee

Mr. Choy Sze Chung, Jojo ceased to serve as a member of the remuneration and appraisal committee on 31 January 2018. Ms. Mao Yaping was appointed as a member of the remuneration and appraisal committee of the Company on 13 April 2018 to fill up the vacancy in accordance with the requirement of the Listing Rules regarding the number of members of the remuneration and appraisal committee. The remuneration and appraisal committee currently comprises five members, comprising three independent non-executive Directors, Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Feng Gang and two executive Directors, Mr. Han Shu and Ms. Xu Liying. The committee is chaired by Mr. Xiao Xiaozhou.

The remuneration and appraisal Committee has adopted the operation model where it makes recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all Directors and senior management of the Group and the remuneration of all Directors of each member of the Group. The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy on all Directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also assesses the performance of executive directors and approves the terms of executive director service contracts. It also makes recommendations to the Board on the remuneration of non-executive Directors (including independent non-executive directors), to supervise the execution of the remuneration system, to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with agreement terms; and if compensation payable could not be consistent with agreement terms, it should be fair and not excessive. The committee consults the chairman and/or the general manager about their remuneration proposals for other executive Directors.

The Group's remuneration policy seeks to provide fair and reasonable market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

The remuneration and appraisal committee shall report the passed resolution(s) and voting results to the Board after each meeting in writing. The terms of reference of the remuneration and appraisal committee shall be made available for inspection on request, details of which are also published at the website of the Company (<http://cdc.com.cn>).

In evaluating the performance of the Directors and senior management, the Company used budget targets and audited financial reports as benchmarks. At the same time, sales revenue, net profits, and key performances were used as business indices. The Company's remuneration policy is that remuneration is linked with Company's performance. Directors' remuneration is determined upon appraisal by the remuneration and appraisal committee. By adopting such initiatives, the Company aims to attract, retain and encourage talents and provide supports for the achievement of operating targets of the Group.

Total income of senior management during the Year comprises of a basic annual salary and a performance-based annual bonus. Remuneration of Directors and Supervisors are determined in general meetings according to related policies or regulations of the PRC and the actual position of the Company. The remuneration of the Directors and Supervisors working for the Company are paid according to the duties they undertake in the Company.

One meeting was held in the Year. During the Year, the committee approved the remuneration of new executive Directors.

During the Year, independent non-executive Directors, namely Mr. Choy Sze Chung, Jojo, Mr. Xiao Xiaozhou, Mr. Lin Zulun and Mr. Feng Gang, were paid director fees while the remaining Directors and Supervisors (including Directors and Supervisors working for the Company) were not paid any director or supervisor fees by the Company.

CORPORATE GOVERNANCE REPORT

(h) Nomination Committee

Mr. Choy Sze Chung, Jojo ceased to serve as a member of the nomination committee on 31 January 2018. Ms. Mao Yaping was appointed as a member of the nomination committee of the Company on 13 April 2018 to fill up the vacancy in accordance with the requirement of the Listing Rules regarding the number of members of the nomination committee. The Board set up a nomination committee currently comprising five members, including three independent non-executive Directors, Mr. Feng Gang, Ms. Mao Yaping, Mr. Xiao Xiaozhou and two executive Directors, Mr. Wang Micheng and Ms. Liu Yun. The committee is chaired by Mr. Feng Gang. The nomination committee holds meetings in due course every year.

The purpose of the committee is to determine the policy for the nomination of directors performed by the nomination committee. It is to lead the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board. In January 2019, the Company has revised director nomination policy to comply with the new requirement under the Listing Rules. The committee is also responsible for reviewing the structure, size, composition and diversity (including but not limited to gender, ages, cultural and education backgrounds, occupations, experience, skills, knowledge and length of service) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee supervises the implementation of Board Diversity Policy, reviews such policy at least once a year to ensure its effectiveness, and advise the Board of Directors on any proposed revision of the policy. The committee carries out extensive search for qualified candidates for Directors and managers and it is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the vice chairman and the chief executive officer of the Company. The committee consults the chairman of the Board about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company. The chairman of the nomination committee shall report the approved resolution(s) and the voting results to the Board after each meeting in writing. The terms of reference of the nomination committee shall be made available for inspection on request, details of which are also published at the website of the Company (<http://cdc.com.cn>).

During the Year, the nomination committee had convened one meeting to review the candidate for executive Director and make recommendations thereof to the Board.

(i) Audit Committee

Mr. Choy Sze Chung, Jojo ceased to serve as a member of the nomination committee on 31 January 2018. Ms. Mao Yaping was appointed as a member of the audit committee of the Company on 13 April 2018 to fill up the vacancy in accordance with the requirement of the Listing Rules regarding the number of members of the audit committee. The Company has set up an audit committee since August 1999. The committee currently comprises three members, including the existing three independent non-executive Directors of the Company, namely Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Feng Gang, and is chaired by Ms. Mao Yaping.

Members of the audit committee have a term of three years. Terms of reference of the committee are formulated in accordance with recommendations of "A Guide for Effective Audit Committee" promulgated by the Hong Kong Institute of Certified Public Accountants and the requirements of the Listing Rules. Its major duties include: to report to the Board, examine quality and procedure of the Group's interim and annual reports, review the connected transactions, monitor the financial reporting procedure, review soundness and effectiveness of risk management and internal control systems of the Company, consider the appointment of independent auditors, co-ordinate and review its efficiency and work quality, study written reports of internal audit staff and review feedback from the management to such reports.

The terms of reference of the Audit Committee were revised in January 2019 to comply with the new requirement under the Listing Rules and it shall be made available for inspection on request, details of which are also published at the website of the Company (<http://cdc.com.cn>).

During the Year, the audit committee had convened two meetings. During the meetings, the Audit Committee reviewed the annual results and its corresponding accounts for 2017, the interim results and its corresponding accounts for the six months ended 30 June 2018, discussed the Company's works on internal control matters and other works as required under the CG Code. All resolutions passed during the meetings of the committee were duly recorded in accordance with related rules, and the records were filed upon perusal by all members of the audit committee with amendments. After each meeting, the chairman submitted reports on the significant matters discussed to the Board.

CORPORATE GOVERNANCE REPORT

(j) Strategic Development Committee

The strategic development committee currently comprises five members, including three independent non-executive Directors, Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Feng Gang and two executive Directors, Mr. Wu Changlin and Mr. Hu Jiangbing. The committee is chaired by Mr. Wu Changlin.

The role and main duties of the strategic development committee include studying and advising on the Company's mid to long-term strategic development and planning; studying and advising on the material investment, financing proposal, significant use of capital and project of asset operation subject to approval of the Board pursuant to the Articles of Association; studying and advising on any other material events which have influence on the development of the Company; and checking the implementation of the above matters.

The strategic development committee convened meetings and held discussion in accordance with the proposal of management of the Company and submitted discussion results for consideration of the Board and meanwhile, reported the results to the management of the Company.

During the Year, the strategic development committee convened one meeting to review the ten-year development plan of the Company.

During the Year, attendance at audit committee meetings, nomination committee meetings, remuneration and appraisal committee meetings and strategic development committee meetings of the Board are set out as follows:

| Name of Directors | Audit Committee Meeting Attended/ Eligible to Attend | Nomination Committee Meeting Attended/ Eligible to Attend | Remuneration and Appraisal Committee Meeting Attended/ Eligible to Attend | Strategic Development Committee Meeting Attended/ Eligible to Attend |
|--|--|---|---|--|
| Executive Directors | | | | |
| Mr. Wu Changlin (<i>Chairman</i>) ¹ | – | – | – | – |
| Mr. Zhang Xiaocheng ² | – | – | – | 1/1 |
| Mr. Hu Jiangbing (<i>Vice Chairman</i>) ³ | – | – | – | – |
| Mr. Han Shu | – | – | 2/2 | – |
| Mr. Wang Micheng | – | – | – | 1/1 |
| Ms. Xu Liying | – | – | 2/2 | – |
| Ms. Liu Yun | – | 2/2 | – | – |
| Mr. Fan Xu ⁴ | – | 2/2 | – | – |
| Independent Non-executive Directors | | | | |
| Mr. Choy Sze Chung, Jojo ⁵ | – | – | – | – |
| Ms. Mao Yaping | 3/3 | 2/2 | 1/1 | 1/1 |
| Mr. Xiao Xiaozhou | 3/3 | 3/3 | 2/2 | 1/1 |
| Mr. Lin Zulun ⁶ | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Feng Gang | 1/1 | 1/1 | – | – |

1 Mr. Wu Changlin was appointed as an executive Director on 22 November 2018.

2 Mr. Zhang Xiaocheng resigned as an executive Director on 22 November 2018.

3 Mr. Hu Jiangbing was appointed as an executive Director on 22 November 2018.

4 Mr. Fan Xu resigned as an executive Director on 22 November 2018.

5 Mr. Choy Sze Chung, Jojo resigned as an independent non-executive Director on 31 January 2018.

6 Mr. Lin Zulun retired as an independent non-executive Director on 13 November 2018.

CORPORATE GOVERNANCE REPORT

(k) Auditor's Remuneration

The auditor engaged by the Company is nominated by the Board and is approved by Shareholders in the general meeting. Apart from annual audit, the auditor of the Company has also reviewed the interim reports of the Company. Its remuneration was determined by the Board as authorized by the general meeting. During the Year, the remuneration paid by the Company to the auditor totaled RMB860,000.

MONITORING MECHANISM

Supervisory Committee

The Supervisory Committee was established in accordance with the relevant PRC law. It independently performs its supervisory duty under the law to protect against infringement of lawful rights of Shareholders, the Company and its staff. Also, it reviews the financial position and the financial information of the Company pursuant to the Articles of Association, monitors the decisions made by the Board and senior management for operation and management of the Company as to whether they are in accordance with relevant requirements of the laws and regulations.

The Supervisory Committee comprised three supervisors, including one supervisor acting as staff representative and two Shareholder's representative supervisors.

On 13 November 2018, the 2018 first extraordinary general meeting was held to, among other matters, re-elect Mr. Zheng Zhili and Mr. Xiong Ting as the Supervisors of the Company. The Company held a labor congress on 27 July 2017. At the labor congress, Mr. Liu Jun was democratically elected by the staff of the Company as a staff representative Supervisor of the Supervisory Committee of the Company to take the place of Ms. Dai Xiaoyi. The existing members of Supervisory Committee are Mr. Zheng Zhili (Chairman of Supervisory Committee), Mr. Xiong Ting and Mr. Liu Jun.

During the Year, the Supervisory Committee convened two meetings. All Supervisors have attended all the Board meetings and performed their monitoring obligations on behalf of Shareholders as to whether the financial activities of the Company, the performance of duties of Directors and senior management and the decision-making procedures of the Board of the Company are in compliance with the laws and regulations.

The Supervisors had performed their statutory duties impartially.

RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

The Board is responsible for the establishment and maintenance of the Company's risk management and internal control systems for reviewing relevant financial, operating and supervisory control procedures to protect Shareholders' interests and the Group's assets. The management is authorized by the Board to adopt such internal control system. For the year ended 31 December 2018, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group and considered that certain aspects, such as timely internal reporting, should be strengthened. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal control system includes a management framework with clearly defined duties for the purposes of assisting the Company in reaching various business targets and ensuring that assets of the Company will not be defalcated or disposed of; ensuring that the Company's accounting records provide reliable financial data for internal use or public disclosure; and ensuring compliance with related legislations and requirements.

CORPORATE GOVERNANCE REPORT

The Company set up an internal audit department in October 2003 to inspect, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on different potential risks and the importance of internal control systems for different businesses and workflows, so as to ensure the transparency of information disclosure, operating efficiency and effectiveness of the corporate monitoring mechanism. The external auditors are entitled to have access to all information of the Company and to make enquiries to relevant persons in performing their duties. The manager of the internal audit department directly reports the relevant outcomes and its opinions to the audit committee for consideration. Upon consideration by the audit committee, the audit committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

The Company formulated the Internal Control System which summarizes and clarifies the objectives, content, methods and obligations of the internal control system. This will facilitate the Company's continuing inspection and assessment on implementation of the existing systems and the effectiveness of internal controls. On 12 November 2015, the Board amended the Implementation Rules of Audit Committee in accordance with the revised Listing Rules in respect of internal control and risk management.

In order to further provide effective risk management, the Company consolidated its management system in 2016 to further strengthen the management functions. At the same time, the Company specified major risk management issues including investment management, capital management, safety management and contract management according to its features in operation and development. The Board made amendments and improvements to the regulations and systems of the Company in respect of legal and comprehensive risk management and formulated the Implementation Measures for the "Three Importance and One Greatness" Decision Making. The Company also established a major risk reporting system such that all risks with respect to legal, employees' life, environment and other areas have to be reported. The Company also set up a risk management working group comprising some of the key senior management, the major persons in charge of departments and the major responsible persons of business operations, which specified the duties and authorities of the personnel and clarified the major responsible units or departments for the working procedures in relation to comprehensive risk management. The finance department of the Company and the person in charge of the financial operations of the subsidiaries of the Company conducted cross-checking on financial operations. The risk management working group has to report to the audit committee and the Board so as to enable them reviewing the risk management system of the Company.

The Board conducted a review to examine whether the risk management and internal control systems of the Company and its subsidiaries are effective and adequate. Subjects of review included the supervision of the Company's finance, operation, compliance and risk management. The Company has set up a comprehensive risk management committee headed by Hu Jiangbing, General Manager, as the team leader and the principal leaders as members in order to strengthen all aspects of monitoring and procedures regarding the compliance of the Listing Rules. The Board also reviewed risk management, accounting and training of internal audit staff in full and ensured the business quality and risk assessment awareness of the staff and that sufficient budget was provided.

To further implement internal control more efficiently, the Board had confirmed the following major procedures:

- The Company has a framework with well-defined authority and duties with a hierarchical chain of supervision. The heads of all the departments participate in the formulation of strategic plans. Entrepreneurial strategies for the coming three years were formulated for achievement of annual operation plan and annual business and financial targets. Strategic plans and business plans for the year are the basis for annual budgets, and according to the budgets, the Company had confirmed and allocated resources in view of the priorities of different business opportunities. The three year strategic plans are approved by the Board (subject to yearly review), annual business plans and annual budgets are also to be approved by the Board each year.
- The Company has a comprehensive account management system providing the management with an index for assessing financial and business performance as well as notifiable and discloseable financial information. In case discrepancy occurs in budgets, analysis and explanation will be made and appropriate action will be taken to rectify the problems as and when necessary.
- The Company has set up systems and procedures for confirmation, assessment, handling and controlling of risks including risks in respect of law, credit, market, centralization, operation, environment, acts and risks which may affect the Company's development.

CORPORATE GOVERNANCE REPORT

The internal audit department will carry out independent review of confirmed risks and supervision so as to reasonably guarantee the management and audit committee that the risks are satisfactorily handled and control is fully effected.

The Company has formulated the Confidentiality Work Regulations for all employees in the Company to handle the disclosure of the relevant confidential documents and trading of securities. The employees shall comply with the relevant policy if they are aware of the confidential or insider information of the Company. The Company has announced such policy on the internal website of the Company and notified such matter to all employees in the Company.

CHIEF FINANCIAL OFFICER

The chief financial officer is in charge of the Company's financial operations and is responsible to the general manager. The chief financial officer is responsible for supervising the financial and internal control reporting issue of the Company and its subsidiaries so as to confirm that the Company is in compliance with the Listing Rules in relation to the requirements of financial reports and other relevant accounting regulations. The chief financial officer will also review previous insufficient disclosures and ensure the compliance of financial information.

The chief financial officer is responsible for preparing financial statements in accordance with the accounting principles generally accepted in the PRC and Hong Kong and to ensure compliance with disclosure requirements as stipulated by the China Securities Regulatory Commission and the Stock Exchange. The chief financial officer is also responsible for arranging and preparing the Company's annual budget scheme and the annual final accounting proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the chief financial officer shall work with and give recommendation to the Board in establishing relevant internal control systems.

REMUNERATION OF SENIOR MANAGEMENT

Details of the remuneration for Directors and top five persons in respect of remuneration are set out in note X to the financial statements of this annual report. For the year ended 31 December 2018, the scope of remuneration for the senior management of the Company is set out below:

| Scope of remuneration (RMB'000) | Number of members of senior management |
|---------------------------------|--|
| 0-1,000 | 5 |

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors understand and acknowledge their responsibility for ensuring that the financial statements for each financial year are prepared to give a true and fair view of the state of affairs, profitability and cash flow of the Group in accordance with the disclosure requirements of the relevant laws and regulations and disclosure provisions of the Listing Rules.

In preparing the financial statements of the Group for the year ended 31 December 2018, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

RELATIONS WITH SHAREHOLDERS, INVESTORS AND OTHER INTERESTED PARTIES

The Company is committed to ensuring that all Shareholders, especially the minority Shareholders, can enjoy equal status and fully exercise their rights.

DIVIDEND POLICY

The Company is allowed to distribute annual dividends pursuant to the Articles of Association. Dividend distribution shall be proposed by the Board for approval by the Shareholders at the annual general meeting of the Company. For the purposes of determining the dividend payable by the Company, the Company's statutory surplus reserve fund and the Company's public welfare fund will not form part of the distributable profit of the Company. The statutory surplus reserve fund of the Company can only be used for making up any losses of the Company by being transformed into share capital of the Company.

Under the Articles of Association, the cash dividends of H Shares are announced in RMB and will be distributed in Hong Kong dollars to the holders of H Shares, the exchange rate being the average closing exchange rate of designated bank in the previous week prior to distribution. Where the foreign reserve is not sufficient to meet the dividends to be distributed, the Company will make currency exchange in RMB at designated bank to distribute dividends.

The Company may distribute dividends in cash or stocks pursuant to the adopted dividend policy.

For ordinary Shareholders, including holder of Domestic Shares, the dividends of the Company will be distributed in RMB. For holders of H Shares, the dividends of the Company will be distributed in Hong Kong dollars in accordance with the regulations of the State Administration of Foreign Exchanges (SAFE) of the PRC.

COMPANY SECRETARY

The Company engages an external service provider company secretarial services and Mr. Shum Shing Kei is appointed as the Company Secretary. The primary contact person in the Company for Mr. Shum in relation to company secretarial matters is Mr. Hu Jiangbing, Executive Director and Vice Chairman of the Company. The Company Secretary is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training and has complied with the requirements in Rule 3.29.

GENERAL MEETING

The general meeting, as the highest authority of the Company, exercises its rights under the law to make decisions on significant events of the Company. The Company establishes and maintains various communication channels with shareholders by way of publication of annual reports, interim reports and announcements.

The relevant reports and announcements are also published on the Company's website. Each year, the annual general meeting or extraordinary general meeting (if applicable) serves as a direct communication channel between the Board and the Shareholders. All Directors understand that the general meetings serve as an effective platform for Shareholders and provide a major venue for direct communication among Directors, Supervisors and other senior management and Shareholders and exchange of opinions with Directors, who shall report to Shareholders with regard to the Group's operations and respond to their enquiries to secure effective communications with Shareholders.

Accordingly, the Company had attached much importance to the general meetings. In addition to a 45-day notice before the holding of the general meeting, the Company requires that all Directors and senior management shall use their best endeavors to attend the general meetings. Also, all Shareholders are encouraged to attend the general meetings, at which they can make enquiries about the Company's operation status or financial data, Shareholders are welcome to express their views therein. Results of polls will be published on the websites of the Stock Exchange and the Company in due course.

In 2018, the Company convened one annual general meeting and one extraordinary general meeting.

CORPORATE GOVERNANCE REPORT

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Under the Articles of Association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one tenth (1/10) of the paid-up capital of the Company which carries the right of voting at general meeting can require an extraordinary general meeting ("**EGM**") to be called by the Board for the transaction of any business specified in such requisition. The procedures for Shareholders to convene and put forward proposals at an EGM are stated as follows:

- (1) Any one or more Shareholders holding 3% or more of the shares which carries the right of voting at such proposed meeting may require the Board to convene an extraordinary general meeting or a class meeting of Shareholders through signing one or copies of written request in the same format which contain the resolutions to be proposed at such meeting. The Board shall convene an extraordinary general meeting or a class meeting of Shareholders as soon as possible after receiving such written request. The aforesaid number of shares held shall be based on the number of shares held on the date of written request.
- (2) Where the Board fails to issue a notice of meeting within 30 days after receiving the aforesaid written request, the Shareholder(s) who made such request may convene a meeting within four months after the Board receiving such request, in the same manner, as nearly as possible, as that in which the general meetings are convened by the Board.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to cdc@cdc.com.cn or send their enquiries to the following address:

No. 18, Xinhang Road,
The West Park of Hi-tech Development Zone,
Chengdu,
Sichuan Province,
The PRC

CONTROLLING SHAREHOLDER

During the Year, China Potevio is the controlling Shareholder of the Company, which holds 60% of the total issued share capital of the Company. As the controlling Shareholder of the Company, China Potevio has never overridden the general meeting to directly or indirectly intervene the Company's decision-making and operation. In 2003, in order to further improve the management of investor relations, the Company has always maintained independence of its controlling Shareholder in terms of staff, assets, finance, organization and business.

CORPORATE GOVERNANCE REPORT

INFORMATION DISCLOSURE AND INVESTOR RELATION MANAGEMENT

The Company endeavors to comply with the requirements on information disclosure under the Listing Rules and discloses to the Shareholders and related parties all discloseable information to the best knowledge of the Company on a timely and fair basis.

The Office of the Board is responsible for information disclosure of the Company and reception of visits of its Shareholders and investors. In 2003, for further enhancement in investor relations management, the Company had formulated Information Disclosure Management System and Information Management System to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

In 2018, the Company's management maintained close contact and good communication with visiting investors by meeting them. The Company provides its announcements, interim and annual reports with detailed financial information and results to Shareholders on its website (<http://cdc.com.cn>).

During the Year, the resolution on amendment to the Articles of Association was considered and approved at the 2017 annual general meeting held on 23 June 2018.

OTHER INTERESTED PARTIES

The Company is committed to providing satisfactory services to customers and room for development to employees. The Company takes efforts to improve its profitability under the principle of honesty and faithfulness with a high sense of responsibility toward its Shareholders, investors, employees, customers, suppliers and the society. At the same time, the Company oversees and develops its businesses in compliance with local rules and environmental protection regulations to improve its corporate governance, and actively participates in social services and environmental protection.

IMPROVEMENT OF CORPORATE GOVERNANCE

The Company will continue to refine the internal supervision and control of its subsidiaries. It will also strengthen the supervision of connected transactions and continuing connected transactions so as to make up for the previous delay in information disclosure due to lack of internal communication, safeguard the interest of all Shareholders and ensure the information disclosures are in compliance with the relevant requirement.

The Company will also continue to endeavor to comply with the requirements of the regulatory authorities in order to improve corporate governance and ensure the sustainable development of the Company.

REPORT OF THE SUPERVISORY COMMITTEE

To Shareholders,

During the Year, all members of the Supervisory Committee had diligently exercised the supervisory functions of the Supervisory Committee in accordance with the relevant provisions of various laws and regulations like Company Law, Listing Rules and Articles of Association by attending all Board meetings and general meetings convened by the Company. Some members attended general manager's meetings and decision-making meetings of the Company. In 2018, the tasks of the Supervisory Committee strengthened the supervision over legality and compliance of work of the Board and operational decisions of the management as well as execution of resolutions approved by general meetings by the Board. With surveillance over the Company's operation and implementation of internal compliance system as well as the duty performance of the Company's Directors and senior management, the Supervisory Committee provided opinions and recommendations. As for the financial position and annual reports of the Company, it listened carefully to financial manager's report with regard to the financial position and operating results of the Company and carried out diligent reviews and analysis.

The Supervisory Committee would like to render its independent opinion as follows:

1. OPERATION OF THE COMPANY IN COMPLIANCE WITH THE LAW

The Supervisory Committee is of the opinion that during 2018, the Company operated in compliance with the Company Law, the Listing Rules, the Articles of Association and other applicable laws and regulations, and established and continuously improved the relevant internal control systems. The Company's decision-making procedure was legitimate and all the resolutions passed at the general meetings were implemented properly.

2. DISCHARGE OF DUTIES BY DIRECTORS, MANAGERS AND OTHER SENIOR MANAGEMENT

The Supervisory Committee was of the opinion that the Directors, managers and other senior management of the Company had performed their duties diligently, pragmatically and faithfully and there was no abuse of rights, violation of laws or regulations or Articles of Association and no acts detrimental to the interests of Shareholders, the Company and the Company's staff members were found.

3. WORK REPORT OF THE BOARD

The Supervisory Committee had a detailed review of the work report of the Board submitted by the Board for consideration at the annual general meeting for 2018 and considered that the report had objectively and thoroughly reflected various work done by the Company during the Year.

4. FINANCIAL REPORT

After detailed examination of the financial system and the annual financial report of the Company, the Supervisory Committee considers that the financial report truly and fairly reflected the financial and assets position and operation of the Company.

5. OPINIONS ON MANAGEMENT IN AUDITOR'S REPORT

The Supervisory Committee considers that the Company shall make formal study on the opinions on management raised by auditors, and work out practical and feasible measures and solutions for implementation as soon as possible.

6. LITIGATIONS

In 2018, the Company had no other material litigations.

The Supervisory Committee is of the opinion that, in 2018, under the leadership of China Putian, the Board and Supervisory Committee, the Company continued to implement the series of reform documents relating to the deepening of reforms on state-owned enterprise promulgated by the Central Committee of the CPC and the State Council. Combined with issues addressed in the list of issues, the Company continuously adjusts and improves its reforms to attain certain achievements. Although the Company exerted great efforts and also made considerable achievements on operating efficiency, industrial development and management improvement in 2018, we are clearly aware of the fact that the external environment faced by the Company is undergoing profound changes. The Company faces opportunities and challenges arising from reform and innovation and various risks that co-exist. Therefore, we must attach great importance to and take effective mitigating measures in such aspects, and formulate work arrangements with definite objectives made with consideration of the positive effect achieved and the deficiencies that exist, so as to consolidate and further the achievements and strive for sustained development by keeping results oriented and adhering to the corporate strategy.

In 2019, the Supervisory Committee will continue to exercise its function in supervising the decision-making, finance, Directors and senior management of the Company, optimize its deployment, implement specific surveillance tasks and fulfil its duties as always in accordance with the Company Law, the Articles of Association and relevant provisions of the Listing Rules to realize the development and improve the operating efficiency of the Company for the protection of the interest of all Shareholders.

Zheng Zhili

Chairman of the Supervisory Committee

21 March 2019

AUDITOR'S REPORT



Add.: No. 1366 Qianjiang Rd., Hangzhou
P.C.: 310020
Tel: (0571) 8821 6888
Fax: (0571) 8821 6999

PCCPAAR [2019] 1-183 No.

To the Shareholders of Chengdu PUTIAN Telecommunications Cable Company Limited:

I. AUDIT OPINION

We have audited the accompanying financial statements of Chengdu PUTIAN Telecommunications Cable Company Limited (“the Company”), which comprise the consolidated and parent company balance sheets as at December 31, 2018, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the year then ended, as well as notes to financial statements.

In our opinion, the attached financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

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

(1) Government subsidy

1. Description of the issue

For details of relevant information disclosure, please refer to Note 3 (23) and 5 (4) of the financial statements.

In 2018, Chengdu Putian Cable Co., Ltd. confirmed the government subsidy of 7,815,628.01 yuan, of which the subsidy related to assets was 3,482,131.32 yuan, the subsidy related to income was 4,333,496.69 yuan. Due to the material amount of the subsidy, which has a significant impact on the net profit of 2018 and involves significant management judgment, we have identified the government subsidy as a key audit issue.

2. Audit procedure

- (1) Select some government subsidy projects as sample, check the subsidy receiving status and the documents related to government subsidies, and judge whether they are related to assets, income or related to daily activities, and whether they full-filled the condition for government subsidy requirements.
- (2) For the government subsidies related to income, we checked the occurrence of related expenses and the profit & loss of the company as the beneficiary of government subsidy, and checked whether the relevant government subsidy carried forward profit & loss matched with the expenditure.
- (3) For the asset-related government subsidies received in the previous period, we checked the total amount of capital expenditures for the corresponding assets purchase and construction. We also checked the amount of deferred income gains & losses carry forward cause by such government subsidies and determine that the deferred income is allocated to the current profit & loss within the useful lives of the related assets. For the government subsidies related to assets received in the current period, we check the total amount of capital expenditures for the corresponding assets, and check whether the corresponding assets have meet the usable condition.
- (4) Check whether the information related to government subsidy has been properly presented and disclosed in the financial statements.

AUDITOR'S REPORT

(2) Net realizable value of inventory

1. Description of the issue

For related information disclosure, please refer to Note 3 (28) and 5 (1) 5 of the financial statements.

As of December 31, 2018, the balance of the inventory in the financial statements of Chengdu Putian Cable Co., Ltd. has RMB113,534,682.36, the provision for inventory was RMB24,597,196.68, and the inventory book value was RMB88,937,485.68.

On the balance sheet date, the inventories were measured at the lower of the cost and the net realizable value. The provision for decline in inventories is based on the difference between the cost of the inventories and the net realisable value. Based on the purpose of holding the inventories the management of Chengdu Putian Cable Co., Ltd. ("the management") determines the estimated selling price based on historical selling price, actual selling price, contracted selling price, future market trend, etc.

And then the management determine the net realizable value of the inventory by subtracting the estimated cost of completion, cost of sale, relevant taxes from estimate selling price.

Due to the material amount of inventories and the determination of the net realizable value of inventories involving significant management judgment, we have determined the net realizable value of inventories as a key audit issue.

2. Audit procedure

- (1) Understand the key internal controls related to the net realizable value of inventory, evaluate the design of these controls, determine if they are implemented, and test the effectiveness of the relevant internal controls.
- (2) Review the management's estimation of the selling price of the inventory by sampling, and compare the estimated selling price with historical price, post-period conditions, market information, etc. For the inventories that have been sold after the period, compared the estimated selling price with the actual selling price; for the inventories that have not been sold after the period, we obtain the open market selling price information and compared with the estimated selling price.
- (3) Evaluate the reasonableness of the managements estimated costs, sales expenses and related taxes would occur by the inventory is completed.
- (4) Test management's calculation of the net realizable value of inventory.
- (5) Assessing whether the management has reasonably estimated the net realizable value of the inventory. We examine the inventory with the inventory checking record to see whether there is long-term inventory, outdated production, declining production, fluctuations in production costs or selling prices, changes in technology or market demand, etc.
- (6) Check whether the information related to the net realizable value of the inventory has been properly presented and disclosed in the financial statements.

IV. OTHER INFORMATION

The Company's management (the "Management") is responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be available to us after the audit report date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises, as well as designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

AUDITOR'S REPORT

We exercise professional judgment and maintain professional skepticism throughout the audit performed in accordance with China Standards on Auditing. We also:

- (I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in circumstances.
- (III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (IV) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding the planned audit scope, time schedule and significant audit findings, including any deficiencies in internal control of concern that we identify during our audit.

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

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

Pan-China Certified Public Accountants LLP

Chinese Certified Public Accountant: He Jiangxing
(Engagement Partner)

Chinese Certified Public Accountant: Jin Jingyu

Hangzhou • China
Date of Report: 22 March, 2019

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year end on 31st December 2018

Form AC-01

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Asset | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|-------------------------|------------------|------------------|
| Current assets: | | | | |
| Cash and bank | 1 | 441,997,685.40 | 502,739,979.20 | 502,739,979.20 |
| Settlement funds | | | | |
| Lendings to Banks and Other Financial Institutions | | | | |
| Tradable financial asset | | | | Not applicable |
| Financial assets at fair value through profit or loss | | Not applicable | Not applicable | |
| Derivative financial assets | | | | |
| Notes receivable and account receivable | 2 | 228,215,477.41 | 214,534,640.82 | 221,134,776.61 |
| Advances paid | 3 | 16,709,878.31 | 28,522,959.92 | 28,522,959.92 |
| Insurance premiums receivable | | | | |
| Reinsurance receivables | | | | |
| Provisions on reinsurance receivables | | | | |
| Other receivables | 4 | 11,674,523.95 | 24,306,059.80 | 23,985,338.43 |
| Reverse-REPO financial assets | | | | |
| Inventories | 5 | 88,937,485.68 | 108,342,841.35 | 108,342,841.35 |
| Contractual asset | | | | Not applicable |
| Assets classified as held for sale | | | | |
| Non-current assets due within one year | | | | |
| Other current assets | 6 | 14,048,727.80 | 14,278,091.00 | 14,278,091.00 |
| Total current assets | | 801,583,778.55 | 892,724,572.09 | 899,003,986.51 |
| Non-current assets: | | | | |
| Loans and payments on behalf | | | | |
| Debt investment | 7 | | | Not applicable |
| Financial assets available for sale | 8 | Not applicable | Not applicable | 4,215,948.00 |
| Other debt investment | | | | Not applicable |
| Investment held to maturity | 9 | Not applicable | Not applicable | |
| Long-term receivables | | | | |
| Long-term equity investments | 10 | 132,459,948.88 | 132,661,468.03 | 132,661,468.03 |
| Other equity investment | 11 | 4,977,441.00 | 4,215,948.00 | Not applicable |
| Other non-current financial assets | | | | Not applicable |
| Investment property | 12 | 66,508,775.47 | 47,332,223.22 | 47,332,223.22 |
| Fixed assets | 13 | 164,963,313.16 | 216,333,998.46 | 216,333,998.46 |
| Construction in progress | 14 | 30,558,500.50 | 20,268,614.42 | 20,268,614.42 |
| Productive biological assets | | | | |
| Oil & gas assets | | | | |
| Intangible assets | 15 | 47,937,324.47 | 46,988,707.45 | 46,988,707.45 |
| Development expenditure | | | | |
| Goodwill | | | | |
| Loan-term prepayments | | | | |
| Deferred tax assets | 16 | | 7,230,404.38 | 7,140,824.38 |
| Other non-current assets | 17 | 8,667,587.21 | | |
| Total non-current assets | | 456,072,890.69 | 475,031,363.96 | 474,941,783.96 |
| Total assets | | 1,257,656,669.24 | 1,367,755,936.05 | 1,373,945,770.47 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year end on 31st December 2018

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Form AC-01
Monetary unit: RMB Yuan

| Liabilities and equity | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|-----------------------|----------------|----------------|
| Current liabilities: | | | | |
| Short-term borrowing | | | | |
| Central bank loans | | | | |
| Loans from other banks | | | | |
| Transaction financial liabilities | | | | Not applicable |
| Financial liabilities measured at fair value through profit or loss | | Not applicable | Not applicable | |
| Derivative financial liabilities | | | | |
| Notes payable and account payable | 18 | 63,251,671.34 | 103,292,947.56 | 103,292,947.56 |
| Receipt in advanced | 19 | 381,164.12 | 511,811.70 | 28,280,760.70 |
| Financial assets sold for repurchase | | | | |
| Absorbing deposit and interbank storage | | | | |
| Agent trading securities | | | | |
| Agency underwriting securities | | | | |
| Employee remuneration payables | 20 | 27,803,822.80 | 39,199,752.93 | 39,199,752.93 |
| Tax payables | 21 | 7,703,317.53 | 18,973,320.61 | 18,973,320.61 |
| Other payables | 22 | 38,411,274.78 | 40,501,877.44 | 40,501,877.44 |
| Handling fee and commission payable | | | | |
| Reinsurance payables | | | | |
| Contract liability | 23 | 7,298,184.05 | 27,768,949.00 | Not applicable |
| Liabilities classified as held for sale | | | | |
| Non-current liabilities due within 1 year | | | | |
| Other current liabilities | | | | |
| Total current liabilities | | 144,849,434.62 | 230,248,659.24 | 230,248,659.24 |
| Non-current liabilities: | | | | |
| Insurance contract reserve | | | | |
| Long-term borrowings | 24 | 6,981,019.84 | 7,409,015.78 | 7,409,015.78 |
| Bonds payable | | | | |
| Including: Preference shares | | | | |
| Perpetual bonds | | | | |
| Long-term payables | | | | |
| Long-term employee remuneration payables | | | | |
| Provisions | 25 | | 650,000.00 | 650,000.00 |
| Deferred income | 26 | 60,648,560.16 | 63,224,691.48 | 63,224,691.48 |
| Deferred tax liabilities | 16 | 639,937.30 | 525,713.35 | 525,713.35 |
| Other non-current liabilities | | | | |
| Total non-current liabilities | | 68,269,517.30 | 71,809,420.61 | 71,809,420.61 |
| Total liabilities | | 213,118,951.92 | 302,058,079.85 | 302,058,079.85 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year end on 31st December 2018

Form AC-01

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Liabilities and equity | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|-------------------------|------------------|------------------|
| Shareholders' equity: | | | | |
| Share capital | 27 | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 |
| Other equity | | | | |
| Including: Preference shares | | | | |
| Perpetual bonds | | | | |
| Capital reserve | 28 | 638,760,122.08 | 651,400,779.83 | 651,400,779.83 |
| Less: treasury shares | | | | |
| Other comprehensive income | 29 | 3,626,311.39 | 2,979,042.34 | 2,979,042.34 |
| Special reserve | | | | |
| Surplus reserve | 30 | 8,726,923.61 | 8,726,923.61 | 8,726,923.61 |
| General risk reserve | | | | |
| Undistributed profit | 31 | -143,051,630.13 | -128,038,712.62 | -121,848,878.20 |
| Total equity attributable to the parent company | | 908,061,726.95 | 935,068,033.16 | 941,257,867.58 |
| Non-controlling interest | | 136,475,990.37 | 130,629,823.04 | 130,629,823.04 |
| Total equity | | 1,044,537,717.32 | 1,065,697,856.20 | 1,071,887,690.62 |
| | | | | |
| Total liabilities & shareholders' equity | | 1,257,656,669.24 | 1,367,755,936.05 | 1,373,945,770.47 |

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

For the year end on 31st December 2018

Form AF-01

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Monetary unit: RMB Yuan

| Asset | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|-----------------------|----------------|----------------|
| Current assets: | | | | |
| Cash and bank | | 212,395,927.82 | 258,532,206.88 | 258,532,206.88 |
| Tradable financial assets | | | | Not applicable |
| Financial assets at fair value through profit or loss | | Not applicable | Not applicable | |
| Derivative financial assets | | | | |
| Notes receivables and account receivables | 1 | 138,768,423.60 | 113,701,088.00 | 119,795,183.81 |
| Advanced payments | | 16,424,828.81 | 29,151,705.84 | 29,151,705.84 |
| Other receivables | 2 | 34,758,304.17 | 43,219,657.57 | 43,017,049.35 |
| Inventories | | 28,805,643.70 | 50,249,768.87 | 50,249,768.87 |
| Contractual asset | | | | Not applicable |
| Assets classified as held for sale | | | | |
| Non-current assets due within one year | | | | |
| Other current assets | | 13,512,979.60 | 12,998,519.79 | 12,998,519.79 |
| Total current assets | | 444,666,107.70 | 507,852,946.95 | 513,744,434.54 |
| Non-current assets: | | | | |
| Debt investment | | | | Not applicable |
| Financial assets available for sale | | Not applicable | Not applicable | 4,215,948.00 |
| Other debt investment | | | | Not applicable |
| Investment held to maturity | | Not applicable | Not applicable | |
| Long-term receivables | | | | |
| Long-term equity investments | 3 | 307,430,172.62 | 288,131,691.77 | 288,131,691.77 |
| Other equity investment | | 4,977,441.00 | 4,215,948.00 | Not applicable |
| Other non-current financial assets | | | | Not applicable |
| Investment property | | 66,274,688.65 | 69,680,479.93 | 69,680,479.93 |
| Fixed assets | | 61,938,279.31 | 74,016,663.64 | 74,016,663.64 |
| Construction in progress | | 9,312,382.10 | 1,323,306.21 | 1,323,306.21 |
| Productive biological assets | | | | |
| Oil & gas assets | | | | |
| Intangible assets | | 34,101,463.59 | 32,821,846.61 | 32,821,846.61 |
| Development expenditure | | | | |
| Goodwill | | | | |
| Loan-term prepayments | | | | |
| Deferred tax assets | | | 7,006,135.65 | 7,006,135.65 |
| Other non-current assets | | 8,667,587.21 | | |
| Total non-current assets | | 492,702,014.48 | 477,196,071.81 | 477,196,071.81 |
| Total assets | | 937,368,122.18 | 985,049,018.76 | 990,940,506.35 |

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

For the year end on 31st December 2018

Form AF-01

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Liabilities and equity | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|-----------------------|----------------|----------------|
| Current liabilities: | | | | |
| Short-term borrowing | | | | |
| Transaction financial liabilities | | | | Not applicable |
| Financial liabilities measured at fair value through profit or loss | | Not applicable | Not applicable | |
| Derivative financial liabilities | | | | |
| Notes payable and account payable | | 25,477,569.21 | 46,339,524.38 | 46,339,524.38 |
| Receipt in advanced | | 381,164.12 | 232,242.58 | 9,402,929.38 |
| Contractual liabilities | | 3,565,539.05 | 9,170,686.80 | Not applicable |
| Employee remuneration payables | | 15,869,424.50 | 21,697,160.07 | 21,697,160.07 |
| Tax payables | | 1,521,661.99 | 1,566,369.97 | 1,566,369.97 |
| Other payables | | 40,938,033.12 | 39,334,219.53 | 39,334,219.53 |
| Liabilities classified as held for sale | | | | |
| Non-current liabilities due within 1 year | | | | |
| Other current liabilities | | | | |
| Total current liabilities | | 87,753,391.99 | 118,340,203.33 | 118,340,203.33 |
| Non-current liabilities: | | | | |
| Long-term borrowings | | 6,981,019.84 | 7,409,015.78 | 7,409,015.78 |
| Bonds payable | | | | |
| Including: Preference shares | | | | |
| Perpetual bonds | | | | |
| Long-term payables | | | | |
| Long-term employee remuneration payables | | | | |
| Provisions | | | | |
| Deferred income | | 400,000.00 | 400,000.00 | 400,000.00 |
| Deferred tax liabilities | | 639,937.30 | 525,713.35 | 525,713.35 |
| Other non-current liabilities | | | | |
| Total non-current liabilities | | 8,020,957.14 | 8,334,729.13 | 8,334,729.13 |
| Total liabilities | | 95,774,349.13 | 126,674,932.46 | 126,674,932.46 |

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

For the year end on 31st December 2018

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Form AF-01

Monetary unit: RMB Yuan

| Liabilities and equity | Note No. | 31st Dec 2018 | 1st Jan 2018 | 31st Dec 2017 |
|---|----------|------------------------|-----------------|-----------------|
| Shareholders' equity: | | | | |
| Share capital | | 400,000,000.00 | 400,000,000.00 | 400,000,000.00 |
| Other equity | | | | |
| Including: Preference shares | | | | |
| Perpetual bonds | | | | |
| Capital reserve | | 648,262,469.64 | 648,262,469.64 | 648,262,469.64 |
| Less: treasury shares | | | | |
| Other comprehensive income | | 3,626,311.39 | 2,979,042.34 | 2,979,042.34 |
| Special reserve | | | | |
| Surplus reserve | | 8,726,923.61 | 8,726,923.61 | 8,726,923.61 |
| Undistributed profit | | -219,021,931.59 | -201,594,349.29 | -195,702,861.70 |
| Total equity | | 841,593,773.05 | 858,374,086.30 | 864,265,573.89 |
| Total liabilities & shareholders' equity | | 937,368,122.18 | 985,049,018.76 | 990,940,506.35 |

CONSOLIDATED INCOME STATEMENT

For the year end on 31 December 2018

Form AC-02

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| I. Total operating revenue | | 614,607,551.15 | 763,966,053.96 |
| Including: Operating revenue | 1 | 614,607,551.15 | 763,966,053.96 |
| Interest proceeds | | | |
| Premium earned | | | |
| Revenue from handling charges and commission | | | |
| II. Total operating cost | | 581,731,804.83 | 695,109,815.87 |
| Including: Operating cost | 1 | 471,622,033.44 | 584,402,123.91 |
| Interest expenses | | | |
| Handling charges and commission expenditures | | | |
| Surrender value | | | |
| Net payment of insurance claims | | | |
| Net provision of insurance policy reserve | | | |
| Premium bonus expenditures | | | |
| Reinsurance expenses | | | |
| Taxes & surcharge for operations | 2 | 8,980,331.89 | 9,852,902.39 |
| Selling cost | 3 | 19,844,839.89 | 19,357,239.02 |
| Administration cost | 4 | 59,379,163.81 | 65,660,133.85 |
| Development cost | 5 | 5,559,320.05 | 6,080,324.55 |
| Financial cost | 6 | -4,125,891.27 | -4,689,260.71 |
| Include: Interest cost | | 111,020.63 | 115,291.76 |
| Interest income | | 6,036,239.44 | 5,636,863.32 |
| Assets impairment loss | 7 | 14,292,032.44 | 14,446,352.86 |
| Credit impairment loss | 8 | 6,179,974.58 | Not applicable |
| Add: Other income | 9 | 7,815,628.01 | 20,340,120.88 |
| Investment income (loss, expressed in negative figure) | 10 | -201,519.15 | 8,683,351.35 |
| Including: Investment income from associates and joint ventures | | -201,519.15 | 8,683,351.35 |
| Gains on foreign exchange (loss, expressed in negative figure) | | | |
| Profit from net exposure to hedging risk (or less: losses) | | | |
| Gains on changes of fair value (loss, expressed in negative figure) | | | |
| Gains on asset disposal (or less: losses) | 11 | -624,084.22 | -2,525,745.35 |
| III. Operating profit (loss, expressed in negative figure) | | 39,865,770.96 | 95,353,964.97 |
| Add: Non-operating revenue | 12 | 975,304.18 | 656,753.99 |
| Less: Non-operating expenditures | 13 | 675,151.61 | 1,751,469.31 |
| IV. Total profit (total loss, expressed in negative figure) | | 40,165,923.53 | 94,259,249.65 |
| Less: Income tax expense | 14 | 22,473,331.46 | 25,785,237.68 |

CONSOLIDATED INCOME STATEMENT

For the year end on 31 December 2018

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Form AC-02

Monetary unit: RMB Yuan

| Items | Note No. | Current period | Prior period |
|--|----------|-----------------------|----------------|
| V. Net profit (loss, expressed in negative figure) | | 17,692,592.07 | 68,474,011.97 |
| (I) Categorized by the continuity of operations | | | |
| 1. Net profit from continuing operations (or less: net loss) | | 17,692,592.07 | 68,474,011.97 |
| 2. Net profit from discontinued operations (or less: net loss) | | | |
| (II) Categorized by the portion of equity ownership | | | |
| 1. Net profit attributable to owners of parent company (or less: net loss) | | -15,012,917.51 | 30,325,354.80 |
| 2. Non-controlling interest (or less: net loss) | | 32,705,509.58 | 38,148,657.17 |
| VI. Other comprehensive income after tax | 15 | 647,269.05 | -2,524,777.95 |
| Net other comprehensive income attributable to owners of the parent company | | 647,269.05 | -2,524,777.95 |
| (I) Not reclassified subsequently to profit or loss | | 647,269.05 | |
| 1. Changes in remeasurement on the net defined benefit liability/asset | | | |
| 2. Other comprehensive income can not transfer to profit and loss under equity method | | | |
| 3. Change on fair value of other equity investment | | 647,269.05 | Not applicable |
| 4. Change on fair value of company's credit risk | | | Not applicable |
| 5. Others | | | |
| (II) To be reclassified subsequently to profit or loss | | | -2,524,777.95 |
| 1. Other comprehensive income transfer to profit and loss under equity method | | | |
| 2. Change on fair value of other debt investment | | | Not applicable |
| 3. Profit or loss from changes in fair value of available-for-sale financial assets | | Not applicable | -2,524,777.95 |
| 4. The amount of financial assets reclassified to other comprehensive income | | | Not applicable |
| 5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets | | Not applicable | |
| 6. Provision on Credit impairment of other debt investment | | | Not applicable |
| 7. Profit or loss on cash flow hedging | | | |
| 8. Translation difference of financial statements in foreign currencies | | | |
| 9. Others | | | |
| Net other comprehensive income after tax attributable to non-controlling interest | | | |
| VII. Total comprehensive income | | 18,339,861.12 | 65,949,234.02 |
| Items attributable to owners of parent company | | -14,365,648.46 | 27,800,576.85 |
| Items attributable to non-controlling interest | | 32,705,509.58 | 38,148,657.17 |
| VIII. Earnings per share ("EPS"): | | | |
| (I) Basic EPS (RMB/share) | | -0.04 | 0.08 |
| (II) Diluted EPS (RMB/share) | | -0.04 | 0.08 |

INCOME STATEMENT OF THE PARENT COMPANY

For the year end on 31 December 2018

Form AC-02

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| I. Total operating revenue | 1 | 264,668,405.04 | 235,815,494.74 |
| Less: Operating cost | 1 | 250,124,778.55 | 213,537,214.26 |
| Taxes & surcharge for operations | | 4,588,898.58 | 4,258,784.00 |
| Selling cost | | 5,570,182.24 | 4,596,142.68 |
| Administration cost | | 39,335,718.88 | 40,115,188.54 |
| Development cost | 2 | 1,838,139.38 | 1,782,369.75 |
| Financial cost | | -3,642,984.24 | -3,319,850.47 |
| Include: Interest cost | | 111,020.63 | 115,291.76 |
| Interest income | | 3,835,482.12 | 3,957,939.37 |
| Assets impairment loss | | 3,982,374.64 | 17,480,128.84 |
| Credit impairment loss | | 7,250,061.72 | Not applicable |
| Add: Other income | | 4,166,919.38 | 684,424.26 |
| Investment income (loss, expressed in negative figure) | 3 | 29,798,480.85 | 26,683,351.35 |
| Including: Investment income from associates and joint ventures | | -201,519.15 | 8,683,351.35 |
| Profit from net exposure to hedging risk (or less: losses) | | | |
| Gains on changes of fair value (loss, expressed in negative figure) | | | |
| Gains on asset disposal (or less: losses) | | -8,082.17 | 145,128.30 |
| II. Operating profit (loss, expressed in negative figure) | | -10,421,446.65 | -15,121,578.95 |
| Add: Non-operating revenue | | | 475,000.00 |
| Less: Non-operating expenditures | | | |
| III. Total profit (total loss, expressed in negative figure) | | -10,421,446.65 | -14,646,578.95 |
| Less: income tax expense | | 7,006,135.65 | 6,904,727.14 |
| IV. Net profit (loss, expressed in negative figure) | | -17,427,582.30 | -21,551,306.09 |
| 1. Net profit from continuing operations (or less: net loss) | | -17,427,582.30 | -21,551,306.09 |
| 2. Net profit from discontinued operations (or less: net loss) | | | |

INCOME

STATEMENT OF THE PARENT COMPANY

For the year end on 31 December 2018

Form AF-02

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Monetary unit: RMB Yuan

| Items | Note No. | Current period | Prior period |
|--|----------|-----------------------|----------------|
| V. Other comprehensive income after tax | | 647,269.05 | -2,524,777.95 |
| (I) Not reclassified subsequently to profit or loss | | 647,269.05 | |
| 1. Changes in remeasurement on the net defined benefit liability/asset | | | |
| 2. Other comprehensive income can not transfer to profit and loss under equity method | | | |
| 3. Change on fair value of other equity investment | | 647,269.05 | Not applicable |
| 4. Change on fair value of company's credit risk | | | Not applicable |
| 5. Others | | | |
| (II) To be reclassified subsequently to profit or loss | | | -2,524,777.95 |
| 1. Other comprehensive income transfer to profit and loss under equity method | | | |
| 2. Change on fair value of other debt investment | | | Not applicable |
| 3. Profit or loss from changes in fair value of available-for-sale financial assets | | Not applicable | -2,524,777.95 |
| 4. The amount of financial assets reclassified to other comprehensive income | | | Not applicable |
| 5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets | | Not applicable | |
| 6. Provision on Credit impairment of other debt investment | | | Not applicable |
| 7. Profit or loss on cash flow hedging | | | |
| 8. Translation difference of financial statements in foreign currencies | | | |
| 9. Others | | | |
| VI. Total comprehensive income | | -16,780,313.25 | -24,076,084.04 |
| VII. Earnings per share ("EPS"): | | | |
| (I) Basic EPS | | | |
| (II) Diluted EPS | | | |

CONSOLIDATED CASH FLOW STATEMENT

For the year 2018 ended on 31 December

Form AC-03

Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| I. Cash flows from operating activities: | | | |
| Cash receipts from sale of goods or rendering of services | | 472,542,223.46 | 730,974,754.72 |
| Net increase of client deposit and interbank deposit | | | |
| Net increase of central bank loans | | | |
| Net increase of loans from other financial institutions | | | |
| Cash receipts of original insurance contract premium | | | |
| Net cash receipts from reinsurance | | | |
| Net increase of policy-holder deposit and investment | | | |
| Cash receipts from interest, handling charges and commission | | | |
| Net increase of loans from others | | | |
| Net increase of repurchase | | | |
| Net cash received from trading securities by agency | | | |
| Receipts of tax refund | | | |
| Other cash receipts related to operating activities | 1 | 88,338,586.23 | 121,189,373.83 |
| Subtotal of cash inflows from operating activities | | 560,880,809.69 | 852,164,128.55 |
| | | | |
| Cash payments for goods purchased and services received | | 348,321,563.54 | 496,295,820.85 |
| Net increase of loans and advances to clients | | | |
| Net increase of central bank deposit and interbank deposit | | | |
| Cash payment of insurance indemnities of original insurance contracts | | | |
| Net increase on financial assets held for trade | | | |
| Net increase of loans from others | | | |
| Cash payment of interest, handling charges and commission | | | |
| Cash payment of policy bonus | | | |
| Cash paid to and on behalf of employees | | 67,030,703.62 | 67,490,700.64 |
| Cash payments of taxes and rates | | 58,113,875.40 | 48,011,335.18 |
| Other cash payments related to operating activities | 2 | 129,981,568.35 | 78,486,084.43 |
| Subtotal cash outflows from operating activities | | 603,447,710.91 | 690,283,941.10 |
| | | | |
| Net cash flows from operating activities | | -42,566,901.22 | 161,880,187.45 |

CONSOLIDATED CASH FLOW STATEMENT

For the year 2018 ended on 31 December

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Form AC-03
Monetary unit: RMB Yuan

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| II. Cash flows from investing activities: | | | |
| Cash received from return of investments | | | |
| Cash received from return on investments | | | |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | | 5,125,526.66 | 3,384,332.50 |
| Net cash received from the disposal of subsidiaries & other business units | | | |
| Other cash receipts related to investing activities | | | |
| Subtotal of cash inflows from investing activities | | 5,125,526.66 | 3,384,332.50 |
| Cash paid for acquiring fixed assets, intangible assets and other long-term assets | | 20,619,783.73 | 28,913,873.36 |
| Cash paid for acquiring investments | | | |
| Net increase of pledged loans | | | |
| Net cash paid for acquiring subsidiaries & other business units | | | |
| Other cash payments related to investing activities | | | |
| Subtotal of cash outflows from investing activities | | 20,619,783.73 | 28,913,873.36 |
| Net cash flows from investing activities | | -15,494,257.07 | -25,529,540.86 |
| III. Cash flows from financing activities: | | | |
| Cash received from investment by others | | | |
| Including: cash received by subsidiaries from non-controlling owners | | | |
| Cash received from borrowings | | | |
| Cash received from issuing of bonds | | | |
| Other cash receipts related to financing activities | | | |
| Subtotal of cash inflows from financing activities | | | |
| Cash repayments of borrowings | | 470,516.54 | 459,138.58 |
| Cash paid for distribution of dividends or profits and for interest expenses | | 20,111,020.63 | 12,115,291.76 |
| Including: cash paid for distribution of dividends or profits by subsidiaries to minority owners | | 20,000,000.00 | 12,000,000.00 |
| Other cash payments related to financing activities | 3 | 19,500,000.00 | |
| Subtotal of cash outflows from financing activities | | 40,081,537.17 | 12,574,430.34 |
| Net cash flows from financing activities | | -40,081,537.17 | -12,574,430.34 |
| IV. Effect of foreign exchange rate changes on cash & cash equivalents | | 563,924.04 | -262,803.22 |
| V. Net increase in cash and cash equivalents | | -97,578,771.42 | 123,513,413.03 |
| Add: Opening balance of cash and cash equivalents | | 454,546,364.92 | 331,032,951.89 |
| VI. Closing balance of cash and cash equivalents | | 356,967,593.50 | 454,546,364.92 |

CASH FLOW

STATEMENT OF THE PARENT COMPANY

For the year 2018 ended on 31 December

Form-AF-03

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Monetary unit: RMB Yuan

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| I. Cash flows from operating activities: | | | |
| Cash receipts from sale of goods or rendering of services | | 72,108,128.91 | 156,541,828.31 |
| Receipts of tax refund | | | |
| Other cash receipts related to operating activities | | 37,632,164.99 | 74,436,022.26 |
| Subtotal of cash inflows from operating activities | | 109,740,293.90 | 230,977,850.57 |
| Cash payments for goods purchased and services received | | 93,313,753.95 | 135,133,745.31 |
| Cash paid to and on behalf of employees | | 30,402,179.83 | 26,947,887.81 |
| Cash payments of taxes and rates | | 5,347,952.71 | 4,649,483.29 |
| Other cash payments related to operating activities | | 30,860,663.24 | 49,646,423.41 |
| Subtotal cash outflows from operating activities | | 159,924,549.73 | 216,377,539.82 |
| Net cash flows from operating activities | | -50,184,255.83 | 14,600,310.75 |
| II. Cash flows from investing activities: | | | |
| Cash received from return of investments | | | |
| Cash received from return on investments | | 30,000,000.00 | 18,000,000.00 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | | 4,346,040.66 | 3,054,457.50 |
| Net cash received from the disposal of subsidiaries & other business units | | 5,000,000.00 | 13,000,000.00 |
| Other cash receipts related to investing activities | | | |
| Subtotal of cash inflows from investing activities | | 39,346,040.66 | 34,054,457.50 |
| Cash paid for acquiring fixed assets, intangible assets and other long-term assets | | 15,216,526.72 | 1,019,373.08 |
| Cash paid for acquiring investments | | 19,500,000.00 | |
| Net cash paid for acquiring subsidiaries & other business units | | | |
| Other cash payments related to investing activities | | | |
| Subtotal of cash outflows from investing activities | | 34,716,526.72 | 1,019,373.08 |
| Net cash flows from investing activities | | 4,629,513.94 | 33,035,084.42 |

CASH FLOW

STATEMENT OF THE PARENT COMPANY

For the year 2018 ended on 31 December

Form-AF-03

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

Monetary unit: RMB Yuan

| Items | Note No. | Current period | Prior period |
|---|----------|-----------------------|----------------|
| III. Cash flows from financing activities: | | | |
| Cash received from investment by others | | | |
| Cash received from borrowings | | | |
| Other cash receipts related to financing activities | | | |
| <hr/> | | | |
| Subtotal of cash inflows from financing activities | | | |
| <hr/> | | | |
| Cash repayments of borrowings | | 470,516.54 | 459,138.58 |
| Cash paid for distribution of dividends or profits and for interest expenses | | 111,020.63 | 115,291.76 |
| Other cash payments related to financing activities | | | |
| <hr/> | | | |
| Subtotal of cash outflows from financing activities | | 581,537.17 | 574,430.34 |
| <hr/> | | | |
| Net cash flows from financing activities | | -581,537.17 | -574,430.34 |
| <hr/> | | | |
| IV. Effect of foreign exchange rate changes on cash & cash equivalents | | | |
| <hr/> | | | |
| V. Net increase in cash and cash equivalents | | -46,136,279.06 | 47,060,964.83 |
| Add: Opening balance of cash and cash equivalents | | 258,532,206.88 | 211,471,242.05 |
| <hr/> | | | |
| VI. Closing balance of cash and cash equivalents | | 212,395,927.82 | 258,532,206.88 |
| <hr/> | | | |

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year 2018 ended on 31 December

| Items | Current period | | | | | | | | | | | Total shareholders' equity | | | |
|--|---|---------------|-----------------|----------------------------|----------------|--------------------------|------------------|-------------------|---------------|-----------------|---|----------------------------|----------------|----------------|------------------|
| | Shareholders' equity attributable to parent company | | | | | Other equity instruments | | | | | Shareholders' equity attributable to parent company | | | | |
| | Share capital | Reserves | Capital reserve | Other comprehensive income | Other | Preferred shares | Perpetual bonds | Convertible bonds | Other | Capital reserve | Reserves | | Other | | |
| I. Balance at the end of prior year | 400,000,000.00 | 65,140,779.83 | 2,979,042.34 | 8,726,883.61 | -12,184,872.39 | 194,629,823.84 | 1,071,887,894.62 | -4,189,824.42 | 40,000,000.00 | 65,140,779.83 | 5,932,202.29 | 8,726,883.61 | -52,174,231.00 | 104,461,659.77 | 1,071,887,894.62 |
| Add: Cumulative change of accounting policies Error correction of prior period Business combination under common control Others | | | | | | | | | | | | | | | |
| II. Balance at the beginning of current year expressed in negative figures | 400,000,000.00 | 65,140,779.83 | 2,979,042.34 | 8,726,883.61 | -12,184,872.39 | 194,629,823.84 | 1,067,702,970.30 | -4,189,824.42 | 40,000,000.00 | 65,140,779.83 | 5,932,202.29 | 8,726,883.61 | -52,174,231.00 | 104,461,659.77 | 1,071,887,894.62 |
| (I) Total comprehensive income | | | | | | | | | | | | | | | |
| (II) Capital contribution or withdrawal by owners | | | | | | | | | | | | | | | |
| 1. Capital contribution by owners | | | | | | | | | | | | | | | |
| 2. Capital contribution by holders of other equity instruments | | | | | | | | | | | | | | | |
| 3. Amount of share-based payment included in equity | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | | | | | | | |
| 1. Appropriation of the profit reserve | | | | | | | | | | | | | | | |
| 2. Appropriation of general risk reserve | | | | | | | | | | | | | | | |
| 3. Appropriation of profit to owners (dividends) | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | |
| (IV) Issued new equity | | | | | | | | | | | | | | | |
| 1. Issuance of capital reserve to capital | | | | | | | | | | | | | | | |
| 2. Transfer of capital reserve to capital | | | | | | | | | | | | | | | |
| 3. Special reserve to owners | | | | | | | | | | | | | | | |
| 4. Change in net income carry forward to retained earnings | | | | | | | | | | | | | | | |
| 5. Other comprehensive income carry forward to retained earnings | | | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | | | |
| 1. Appropriation of current period | | | | | | | | | | | | | | | |
| 2. Application of current period | | | | | | | | | | | | | | | |
| (VI) Others | | | | | | | | | | | | | | | |
| IV. Balance at the end of current period | 400,000,000.00 | 63,870,122.88 | 3,424,311.39 | 8,726,883.61 | -14,887,684.13 | 194,475,994.37 | 1,044,537,717.32 | -4,689,342.25 | 40,000,000.00 | 65,140,779.83 | 2,979,042.34 | 8,726,883.61 | -47,944,873.20 | 130,262,334.34 | 1,071,887,894.62 |

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

For the year 2018 ended on 31 December

Form AF-04
Monetary unit: RMB Yuan

PREPARED BY: CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

| Items | Current period | | | | | | | | | | Prior period | | | | | | | | | | | | | |
|--|----------------|-------------------|------------------|-------------------|--------|-----------------|-----------------|----------------------------|-----------------|-----------------|----------------------|----------------------------|----------------|-------------------|-------------------|--------|-----------------|-----------------|----------------------------|-----------------|-----------------|----------------------|----------------------------|--|
| | Share capital | Preference shares | Reference shares | Residential bonds | Others | Capital reserve | Treasury shares | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profit | Total shareholders' equity | Share capital | Preference shares | Residential bonds | Others | Capital reserve | Treasury shares | Other comprehensive income | Special reserve | Surplus reserve | Undistributed profit | Total shareholders' equity | |
| I. Balance at the end of prior year | 400,000,000.00 | | | | | 646,327,469.64 | | 2,979,041.34 | | | 8,726,932.61 | -95,702,861.70 | 864,265,778.89 | 40,000,000.00 | | | | | 5,568,202.09 | | 8,726,932.61 | -174,151,555.61 | 888,341,657.99 | |
| Add: Cumulative changes of accounting policies | | | | | | | | | | | | -5,891,402.59 | -5,891,402.59 | | | | | | | | | | | |
| Error correction of prior period | | | | | | | | | | | | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | | | | | | | | | | | | |
| II. Balance at the beginning of current year | 400,000,000.00 | | | | | 646,327,469.64 | | 2,979,041.34 | | | 8,726,932.61 | -95,702,861.70 | 868,374,086.30 | 40,000,000.00 | | | | | 5,568,202.09 | | 8,726,932.61 | -174,151,555.61 | 888,341,657.99 | |
| III. Current period increase (decrease) expressed in negative figures | | | | | | | | | | | | | | | | | | | | | | | | |
| (I) Total comprehensive income | | | | | | | | | | | | | | | | | | | | | | | | |
| (II) Capital contributed or withdrawn by owners | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Capital contributed by owners | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Capital contributed by holders of other equity instruments | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Amount of share-based payment included in equity | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Others | | | | | | | | | | | | | | | | | | | | | | | | |
| (III) Profit distribution | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Appropriation of surplus reserve | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Appropriation of general risk reserve | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Others | | | | | | | | | | | | | | | | | | | | | | | | |
| (IV) Intend carry over with equity | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Transfer of capital reserve to capital | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Transfer of surplus reserve to capital | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Surplus reserve to cover losses | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Change in net income carry forward to retained earnings | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. Other comprehensive income carry forward to retained earnings | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Others | | | | | | | | | | | | | | | | | | | | | | | | |
| (V) Special reserve | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Appropriation of current period | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Application of current period | | | | | | | | | | | | | | | | | | | | | | | | |
| (VI) Others | | | | | | | | | | | | | | | | | | | | | | | | |
| IV. Balance at the end of current period | 400,000,000.00 | | | | | 646,327,469.64 | | 3,026,311.39 | | | 8,726,932.61 | -219,021,931.59 | 841,593,778.05 | 40,000,000.00 | | | | | 2,979,042.34 | | 8,726,932.61 | -195,702,861.70 | 864,265,778.89 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

I. COMPANY PROFILE

Chengdu PUTIAN Telecommunications Cable Company Limited (the "Company") was incorporated and registered with the Chengdu Administration Bureau of Industry and Commerce on 1 October 1994 after its restructuring from Chengdu Cable Plant of the Posts and Telecommunications Ministry of China (now known as "China PUTIAN Corporation"), as independent promoter, under the approval of the relevant department of the State Council. The Company is headquartered in Chengdu, Sichuan Province, and holds the Business License of Enterprise (No.510100400020197). The registered capital of the Company is RMB400,000,000 of which: equity interest of China PUTIAN Corporation amounts to RMB240,000,000, representing 60% of the total shares; equity interest of public holders of ordinary shares (H Shares) listed in Hong Kong amounts to RMB160,000,000, representing 40% of the total shares. There are a total of 400,000,000.00 shares in issue with the nominal value of RMB1 each. The shares have been listed in The Stock Exchange of Hongkong Limited (the "Stock Exchange") on 13 December 1994.

The company is a manufacturing industry. Main business activities: wire and cable, fiber optic cable, cable special materials, radiation processing, cable technology research and development, product production, sales and service, electrical technology development, transfer, consulting and related ancillary services; design and installation: city and Road lighting engineering, building decoration and decoration engineering, fire protection facilities engineering, mechanical and electrical equipment installation engineering, residential building weak electricity system engineering; wholesale and retail: communication equipment (excluding radio transmitters), lighting equipment, electrical equipment, instrumentation, electronic measuring instruments, Electronic components, transmission and distribution and control equipment, hardware products and electronic products, plastic products, mineral products, building materials and chemical products (except dangerous chemical products and precursor chemicals), groceries; commission agents (excluding auctions) Import and export of self-operated commodities and their similar products; own real estate, machinery and equipment leasing, property management.

The financial statements of the company have been deliberated and approved by the 5th meeting of the 9th session of the Board on 22 March 2019.

The Company has include Chengdu Zhongling Radio Communications Co., Ltd., Chengdu SEI Optical Fiber Co., Ltd., Chengdu Telecom Cable Shuangliu Heat Shrinkable Product Plant, Chongqing Putaifeng Aluminium Co., Ltd. into the consolidated scope. Please refer to notes to changes in the consolidated scope and interest in other entities for further details.

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

(I) Preparation basis

The financial statements of the company have been prepared on the basis of going concern.

(II) Assessment of the ability to continue as a going concern

The Company has no events or conditions that may cast significant doubts upon the Company's ability to continue as a going concern within the 12 months after the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important note: The Company has set up accounting policies and estimates on transactions or events such as impairment of financial instruments, depreciation of fixed assets, amortization of intangible assets, and revenue recognition, etc. based on the Company's actual production and operation features.

(I) Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

(II) Accounting period

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

(III) Operating cycle

The Company has a relatively short operating cycle for its business, an asset or a liability is classified as current if it is expected to be realized or due within 12 months.

(IV) Functional currency

The Company's functional currency is Renminbi (RMB) Yuan.

(V) Accounting treatments of business combination under and not under common control

1. Accounting treatment of business combination under common control

Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

2. Accounting treatment of business combination not under common control

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

(VI) Compilation method of consolidated financial statements

The parent company brings all its controlled subsidiaries into its consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 — Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposit on demand for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

(VIII) Foreign currency translation

Transactions denominated in foreign currency are translated into RMB yuan at the spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with its RMB amount unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

(IX) Financial instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following three categories when initially recognized: (1) financial assets at amortized cost; (2) financial assets at fair value through other comprehensive income; (3) financial assets at fair value through profit or loss.

Financial liabilities are classified into the following four categories when initially recognized: (1) financial liabilities at fair value through profit or loss; (2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (3) financial guarantee contracts not fall within the above categories (1) and (2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category (1); (4) financial liabilities at amortized cost.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities

(1) *Recognition criteria and measurement method of financial assets and financial liabilities*

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount. However, at initial recognition, for accounts receivable that do not contain a significant financing component or contracts in which the financing components with associated period less than one year are not considered, the Company measures at their transaction price in accordance with "CASBE14 — Revenues".

(2) *Subsequent measurement of financial assets*

1) Financial assets measured at amortized cost

The Company measures its financial assets at the amortized costs using effective interest method. Gains or losses on financial assets that are measured at amortized cost and are not part of hedging relationships shall be included into profit or loss when the financial assets are derecognized, reclassified, through the amortization process or in order to recognize impairment gains or losses.

2) Debt instrument investments at fair value through other comprehensive income

The Company measures its debt instrument investments at fair value. Interests, impairment gains or losses, and gains and losses on foreign exchange that calculated using effective interest method shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses that initially recognized as other comprehensive income should be transferred out into profit or loss when the financial assets are derecognized.

3) Equity instrument investments at fair value through other comprehensive income

The Company measures its equity instrument investments at fair value. Dividends obtained (other than those as part of investment cost recovery) shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses that initially recognized as other comprehensive income should be transferred out into retained earnings when the financial assets are derecognized.

4) Financial assets at fair value through profit or loss

The Company measures its financial assets at fair value. Gains or losses arising from changes in fair value (including interests and dividends) shall be included into profit or loss, except for financial assets that are part of hedging relationships.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities (Continued)

(3) *Subsequent measurement of financial liabilities*

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities (including derivatives that are liabilities) and financial liabilities designated as at fair value through profit or loss. The Company measures such kind of liabilities at fair value. The amount of changes in the fair value of the financial liabilities that are attributable to changes in the Company's own credit risk shall be included into other comprehensive income, unless such treatment would create or enlarge accounting mismatches in profit or loss. Other gains or losses on those financial liabilities (including interests, changes in fair value that are attributable to reasons other than changes in the Company's own credit risk) shall be included into profit or loss, except for financial liabilities that are part of hedging relationships. Accumulated gains or losses that originally recognized as other comprehensive income should be transferred out into retained earnings when the financial liabilities are derecognized.

2) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies

The Company measures its financial liabilities in accordance with "CASBE23 — Transfer of Financial Assets".

3) Financial guarantee contracts not fall within the above categories 1) and 2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category 1)

The Company measure its financial liabilities at the higher of: a. the amount of loss allowances in according to impairment requirements of financial instruments; b. the amount initially recognized less the amount of accumulated amortization recognized in accordance with "CASBE14 — Revenues".

4) Financial liabilities at amortized cost

The Company measure its financial liabilities at amortized cost using effective interest method. Gains or losses on financial liabilities that are measured at amortized cost and are not part of hedging relationships shall be included into profit or loss when the financial liabilities are derecognized and through the amortization process.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities (Continued)

(4) Derecognition of financial assets and financial liabilities

- 1) Financial assets are derecognized when:
 - a. the contractual rights to the cash flows from the financial assets expire; or
 - b. the financial assets have been transferred and the transfer qualifies for derecognition in accordance with “CASBE23 — Transfer of Financial Assets”.
- 2) Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

3. Recognition criteria and measurement method of financial assets transfer

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company does not retain its control over the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability; (2) if the Company retains its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the carrying amount of the transferred financial asset as of the date of derecognition; (2) the sum of consideration received from the transfer of the financial asset, and the accumulative amount of the changes of the fair value originally included in other comprehensive income proportionate to the transferred financial asset (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income). If the transfer of financial asset partially satisfies the conditions to derecognition, the entire carry amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amounts of the following two items are included into profit or loss: (1) the carrying amount of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in other comprehensive income which is corresponding to the portion which is derecognized (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income).

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

4. Fair value determination method of financial assets and liabilities

The Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- (2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs;
- (3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

5. Impairment of financial instruments

(1) *Measurement and accounting treatment*

The Company, on the basis of expected credit loss, recognizes loss allowances of financial assets at amortized cost, debt instrument investments, contract assets or lease receivable at fair value through other comprehensive income, loan commitments other than financial liabilities at fair value through profit or loss, financial guarantee contracts not belong to financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

On the balance sheet date, the Company shall only recognize the cumulative changes in the lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

For accounts receivable do not contain a significant financing component or contracts in which the financing components with associated period less than one year are not considered, which result from transactions as regulated in "CASBE14 — Revenues", the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. Impairment of financial instruments (Continued)

(1) *Measurement and accounting treatment (Continued)*

For lease receivables, accounts receivable and contract assets that result from transactions as regulated in “CASBE14 — Revenues” and contain a significant financing component, the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

For financial assets other than the above, on each balance sheet date, the Company shall assess whether the credit risk on the financial instrument has increased significantly since initial recognition. The Company shall measure the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition; otherwise, the Company shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit loss.

Considering reasonable and supportable forward-looking information, the Company compares the risk of a default occurring on the financial instrument as at the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition, so as to assess whether the credit risk on the financial instrument has increased significantly since initial recognition.

The Company may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk on the balance sheet date.

The following factors should be considered when the Company makes the above assessment:

- 1) Whether the contract payment has been overdue for more than 30 days. If the overdue period exceeds 30 days, the company determines that the credit risk of financial instruments has increased significantly. Unless the company obtains reasonable and evidence-based information without excessive cost or effort, it proves that although the contractual payment period is more than 30 days, the credit risk has not increased significantly since the initial confirmation.
- 2) Whether the company's credit management methods for financial instruments have changed.
- 3) Whether the debtor's expected performance and repayment behavior have changed significantly.
- 4) Whether the actual or expected result of the debtor's operating results has changed significantly.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. Impairment of financial instruments (Continued)

(1) *Measurement and accounting treatment (Continued)*

- 5) Whether the regulatory, economic or technological environment in which the debtor is located has undergone significant adverse changes.
- 6) There are adverse changes in the business, financial or economic conditions that are expected to result in significant changes in the ability of the debtor to meet its debt service obligations.
- 7) Whether the internal price indicators caused by changes in credit risk have changed significantly.
- 8) If the existing financial instrument is sourced or issued as a new financial instrument on the reporting date, whether the interest rate or other terms of the financial instrument will change significantly.
- 9) Whether the external market indicators of credit risk of the same financial instrument or similar financial instruments with the same expected duration have changed significantly. These indicators include: credit spreads, credit default swap prices for borrowers, length of time and extent to which the fair value of financial assets is less than their amortized cost, and other market information related to the borrower (such as the borrower's debt instruments or Changes in the price of equity instruments).
- 10) Whether the external or expected external credit rating of financial instruments has changed significantly.
- 11) Whether the actual or expected internal credit rating of the debtor is lowered.
- 12) Does the credit risk of other financial instruments issued by the same debtor increase significantly?
- 13) Whether the value of the collateral as a collateral for the debt or the quality of the guarantee or credit enhancement provided by the third party has changed significantly.
- 14) It is expected that there will be a significant change in the economic incentives for borrowers to repay their loans under the contractual deadline.
- 15) Expected changes to the loan contract, including the exemption or revision of contractual obligations that may result from the expected breach of contract, the granting of interest-free periods, the jump in interest rates, the requirement for additional collateral or guarantees, or other contractual framework for financial instruments. change.

The company re-measures the expected credit losses on each balance sheet date, and the increase or reversal of the loss provision resulting therefrom is included in the current profit and loss as an impairment loss or gain. For financial assets measured at amortized cost, the loss is prepared to offset the carrying amount of the financial asset presented in the balance sheet; for the debt investment measured at fair value and whose changes are included in other comprehensive income, the company It confirms its loss provision and does not deduct the book value of the financial asset.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. Impairment of financial instruments (Continued)

(2) *Financial instruments with expected credit risk assessed and expected credit losses measured on a collective basis*

| Items | Basis for determination of portfolio | Method for measuring expected credit loss |
|--|---|---|
| Other receivables — deposits receivable, reserve funds, margin combinations | Have similar risk characteristics, combined with previous historical experience | Measure loss preparation based on the amount of expected credit loss over the next 12 months or for the entire duration |
| Other receivables — receivables from related parties | Have similar risk characteristics, combined with previous historical experience | Measure loss preparation based on the amount of expected credit loss over the next 12 months or for the entire duration |
| Other receivables — other combinations | Have similar risk characteristics, combined with previous historical experience | Measure loss preparation based on the amount of expected credit loss over the next 12 months or for the entire duration |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. Impairment of financial instruments (Continued)

(3) *Accounts receivable and contract assets with expected credit losses measured on a collective basis*

Specific portfolios and method for measuring expected credit loss

| Items | Basis for determination of portfolio | Method for measuring expected credit loss |
|---|---|--|
| Bills receivable — bank acceptance bills | With similar risk characteristics, bank acceptance bills have lower risk and are generally accepted by banks. | Based on historical credit loss experience, the current situation and the forecast of future economic conditions, prepare the comparison table of overdue days/ages and lifetime expected credit loss rate of accounts |
| Notes receivable — commercial acceptance bills | With similar risk characteristics | Based on historical credit loss experience, the current situation and the forecast of future economic conditions, prepare the comparison table of overdue days/ages and lifetime expected credit loss rate of accounts |
| Account receivables — combination of related parties | The sales proceeds from related parties are similar, and the entire lifetime expected credit loss is confirmed after initial confirmation. | Based on historical credit loss experience, the current situation and the forecast of future economic conditions, prepare the comparison table of overdue days/ages and lifetime expected credit loss rate of accounts |
| Account receivables — combination of unrelated parties | The sales of goods receivable from non-related parties have similar risks, and the entire lifetime expected credit loss is confirmed after initial confirmation. | Based on historical credit loss experience, the current situation and the forecast of future economic conditions, prepare the comparison table of overdue days/ages and lifetime expected credit loss rate of accounts |
| Account receivables — lease receivables combination | In combination with historical data, there is no significant credit loss on lease receivables and the tenant deposit collected is sufficient to cover potential credit risk | Based on historical credit loss experience, the current situation and the forecast of future economic conditions, prepare the comparison table of overdue days/ages and lifetime expected credit loss rate of accounts |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Inventories

1. Classification of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or suppliers etc. to be consumed in the production process or in the rendering of services.

2. Accounting method for dispatching inventories

Raw materials, semi-finished goods, finished goods and supplementary materials are recorded based on standard costs as planned, and adjusted to actual costs incurred at each period end. Subcontracted materials are measured using the average method and actual costs incurred.

3. Basis for determining net realizable value

At the balance sheet date, inventories are measured at the lower of cost or net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. Inventory system

Perpetual inventory method is adopted.

5. Amortization method of low-value consumables and packages

(1) *Low-value consumables*

Low-value consumables are amortized with one-off method.

(2) *Packages*

Packages are amortized with one-off method.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Contract costs

Assets related to contract costs including costs of obtaining a contract and costs to fulfil a contract.

The Company recognizes as an asset the incremental costs of obtaining a contract if it expects to recover those costs. The costs of obtaining a contract shall be included into profit or loss when incurred if the amortization period of the asset is one year or less.

If the costs incurred in fulfilling a contract are not within the scope of standards related to inventories, fixed assets or intangible assets, etc., the Company shall recognize the costs to fulfil a contract as an asset on if all the following criteria are satisfied:

1. The costs relate directly to a contract or to an anticipated contract, including direct labor, direct materials, manufacturing overhead cost (or similar cost), cost that are explicitly chargeable to the customer under the contract, and other costs that are only related to the contract;
2. The costs enhance resources of the Company that will be used in satisfying performance obligations in the future; and
3. The costs are expected to be recovered.

An asset related to contract costs shall be amortized on a systematic basis that is consistent with related goods or services, with amortization included into profit or loss.

The Company shall make provision for impairment and recognize an impairment loss to the extent that the carrying amount of an asset related to contract costs exceeds: a. the remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates; less b. the costs expected to be incurred. The Company shall recognize a reversal of an impairment loss previously recognized in profit or loss when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined on the reversal date if no provision for impairment had been made previously.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Non-current assets or disposal groups classified as held for sale

1. Classification of non-current assets or disposal groups as held for sale

Non-current assets or disposal groups are accounted for as held for sale when the following conditions are all met:

a. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets or disposal groups; b. its sales must be highly probable, i.e., the Company has made a decision on the sale plan and has obtained a firm purchase commitment, and the sale is expected to be completed within one year.

When the Company acquires a non-current asset or disposal group with a view to resale, it shall classify the non-current asset or disposal group as held for sale at the acquisition date only if the requirement of “expected to be completed within one year” is met at that date and it is highly probable that other criteria for held for sale will be met within a short period (usually within three months).

An asset or a disposal group is still accounted for as held for sale when the Company remains committed to its plan to sell the asset or disposal group in the circumstance that non-related party transactions fail to be completed within one year due to one of the following reasons: a. a buyer or others unexpectedly set conditions that will extend the sale period, while the Company has taken timely actions to respond to the conditions and expects a favorable resolution of the delaying factors within one year since the setting; (2) a non-current asset or disposal group classified as held for sale fails to be sold within one year due to rare cases, and the Company has taken action necessary to respond to the circumstances during the initial one-year period and the criteria for held for sale are met.

2. Measurement of non-current assets or disposal groups as held for sale

(1) Initial measurement and remeasurement

For initial measurement and remeasurement as at the balance sheet date of a non-current asset or disposal group as held for sale, where the carrying amount is higher than the fair value less costs to sell, the carrying amount is written down to the fair value less costs to sell, and the write-down is recognized in profit or loss as assets impairment loss, meanwhile, provision for impairment of assets as held for sale shall be made.

For a non-current asset or disposal group classified as held for sale at the acquisition date, the asset or disposal group is measured on initial recognition at the lower of its initial measurement amount had it not been so classified and fair value less costs to sell. Apart from the non-current asset or disposal group acquired through business combination, the difference arising from the initial recognition of a non-current asset or disposal group at the fair value less costs to sell shall be included into profit or loss.

The assets impairment loss recognized for a disposal group as held for sale shall reduce the carrying amount of goodwill in the disposal group first, and then reduce its carrying amount based on the proportion of each non-current asset’s carrying amount in the disposal group.

No provision for depreciation or amortization shall be made on non-current assets as held for sale or non-current assets in disposal groups as held for sale, while interest and other expenses attributable to the liabilities of a disposal group as held for sale shall continue to be recognized.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Non-current assets or disposal groups classified as held for sale (Continued)

2. Measurement of non-current assets or disposal groups as held for sale (Continued)

(2) Reversal of assets impairment loss

When there is a subsequent increase in fair value less costs to sell of a non-current asset as held for sale at the balance sheet date, the write-down shall be recovered, and shall be reversed not in excess of the impairment loss that has been recognized after the non-current asset was classified as held for sale. The reversal shall be included into profit or loss. Assets impairment loss that has been recognized before the classification is not reserved.

When there is a subsequent increase in fair value less costs to sell of a disposal group as held for sale at the balance sheet date, the write-down shall be recovered, and shall be reversed not in excess of the non-current assets impairment loss that has been recognized after the disposal group was classified as held for sale. The reversal shall be included into profit or loss. The reduced carrying amount of goodwill and non-current assets impairment loss that has been recognized before the classification is not reserved.

The subsequent reversal of the impairment loss that has been recognized in a disposal group as held for sale, the carrying amount is increased based on the proportion of carrying amount of each non-current assets (excluding goodwill) in the disposal group.

(3) Non-current asset or disposal group that is no longer classified as held for sale and derecognized

A non-current asset or disposal group that does not meet criteria for held for sale and no longer classified as held for sale, or a non-current asset that removed from a disposal group as held for sale shall be measured at the lower of: a. its carrying amount before it was classified as held for sale, adjusted for any depreciation. Amortization or impairment that would have been recognized had it not been classified as held for sale; and b. its recoverable amount.

When a non-current asset or disposal group classified as held for sale is derecognized, unrecognized gains or losses shall be included into profit or loss.

(XIII) Long-term equity investments

1. Judgment of joint control and significant influence

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Long-term equity investments (Continued)

2. Determination of investment cost

- (1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investments and the carrying value of the combination consideration paid or the par value of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included the consolidated financial statements of the ultimate controlling party. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

- (2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determined whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:

- 1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity.
- 2) In the case of consolidated financial statements, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, the carrying value of the acquirer’s previously held equity interest in the acquire is re-measured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer’s previously held equity interest in the acquire involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from remeasurement of defined benefit plan of the acquiree.

- (3) Long-term equity investments obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “CASBE 12 — Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “CASBE 7 — Non-cash Assets Exchange”.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Long-term equity investments (Continued)

3. Subsequent measurement and recognition method of gain or loss

For long-term equity investments with control relationship, it is accounted for with cost method; for long-term equity investments with joint control or significant influence relationship, it is accounted for with equity method.

4. Disposal of a subsidiary in stages resulting in the Company's loss of control

(1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in the Company's loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company's loss of control, joint control, or significant influence, the remained equity is accounted for according to "CASBE 22 — Financial Instruments: Recognition and Measurement".

(2) Consolidated financial statements

- 1) Before the Company's loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is re-measured at the loss-of-control-date fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and meanwhile goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company's loss of control.

- 2) In case of "bundled transaction", stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. Before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIV) Investment property

1. Investment property includes land use right of rent-out property and of property held for capital appreciation and buildings that have been leased out.
2. The initial measurement of investment property is based on its cost, and subsequent measurement is made using the cost model, the depreciation or amortization method is the same as that of fixed assets and intangible assets.

(XV) Fixed assets

1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

2. Depreciation method of different categories of fixed assets

| Categories | Depreciation method | Useful life (years) | Estimated residual value proportion (%) | Annual depreciation rate (%) |
|--------------------------|----------------------|---------------------|---|------------------------------|
| Buildings and structures | Straight-line method | 15–30 | 3 | 3.23–6.47 |
| Special equipment | Straight-line method | 5–18 | 3 | 5.39–19.40 |
| Transport facilities | Straight-line method | 4–6 | 3 | 16.17–24.25 |
| Other equipment | Straight-line method | 4–15 | 3 | 6.47–24.25 |

(XVI) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.
2. Construction in progress is transferred into fixed assets at its actual cost when it reaches its designed usable conditions. When the construction completion cost reaches final estimating and auditing of the construction in progress was not finished while it reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Borrowing costs

1. Recognition principle of borrowing costs capitalization

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it is capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in profit or loss.

2. Borrowing costs capitalization period

- (1) The borrowing costs are not capitalized unless they following requirements are all met: 1) the asset disbursements have already incurred; 2) the borrowing costs have already incurred; and 3) the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.
- (2) Suspension of capitalization: where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.
- (3) Ceasing of capitalization: when the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased.

3. Capitalization rate and capitalized amount of borrowing costs

For borrowings exclusively for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests is determined in light of the actual interest expenses incurred (including amortization of premium or discount based on effective interest method) of the special borrowings at the present period minus the income of interests earned on the unused borrowings as a deposit in the bank or as a temporary investment; where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the Company calculates and determines the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Intangible assets

1. Intangible asset includes land use right, patent right and non-patented technology etc. The initial measurement of intangible asset is based its cost.
2. For intangible assets with finite useful lives, its amortization amount is amortized within its useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

| Items | Amortization period (years) |
|-----------------|-----------------------------|
| Land use rights | 50 |
| Concession | 10-15 |
| Others | 10-15 |

Intangible assets with uncertain service life are not amortized, and the company reviews the useful life of the intangible assets during each accounting period. For intangible assets with uncertain service life, the judgment of the service life is based on:

- (1) From contractual rights or other statutory rights, but there are no clear years of use in contractual or legal provisions.
 - (2) It is still impossible to judge the period in which intangible assets bring economic benefits to the company by synthesizing the same industry situation or related expert arguments.
3. Expenditures on the research phase of an internal project are recognized as profit or loss when it is incurred. An intangible asset arising from the development phase of an internal project is recognized if the Company can demonstrate all of the following: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete the intangible asset and use or sell it; (3) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (4) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Criteria for distinguishing the research phase from the development phase of an internal project to create an intangible asset: research stage involves activities carried out for planned investigation and search of new technology and knowledge, which has the characteristics of planning and exploration; before commercial production or other uses, the application of new technologies and new knowledge obtained from the research phase to develop new or improved plant and equipment and produce new or improved materials and products is regarded as development phase, which has the characteristics of pin-pointing and high probability of concluding results.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Impairment of part of non-current assets

For non-current assets such as long-term equity investments, investment property at cost model, fixed assets, construction in progress, productive biological assets at cost model, oil and gas assets, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of groups of assets.

When the recoverable amount of such non-current assets is lower than their carrying amount, the difference is recognized as assets impairment loss through profit or loss.

(XX) Employee benefits

1. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

2. Short-term employee benefits

The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

3. Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

(1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

- 1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the discount rate to determine the present value of the defined benefit plan obligations and the current service cost;
- 2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;
- 3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. Changes as a result of remeasurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Employee benefits (Continued)

4. Termination benefits

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: a. when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or b. when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

5. Other long-term employee benefits

When other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined contribution plan, those benefits are accounted for in accordance with the requirements relating to defined contribution plan. The Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to defined benefit plan. At the end of the reporting period, the Company recognizes the components of cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of remeasurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts are recognized in profit or loss or included in the cost of a relevant asset.

(XXI) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, products quality guarantee, onerous contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.
2. The initial measurement of provisions is based on the best estimated expenditures required in fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Revenue

1. Revenue recognition principles

At contract inception, the Company shall assess the contracts and shall identify each performance obligation in the contracts, and determine whether the performance obligation should be satisfied over time or at a point in time.

The Company satisfies a performance obligation over time if one of the following criteria is met, otherwise, the performance obligation is satisfied at a point in time: (1) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs; (2) the customer can control goods or services as they are created by the Company's performance; (3) the Company's performance does not create goods or services with an alternative uses and the Company has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied over time, the Company shall recognize revenue over time by measuring the progress towards complete satisfaction of that performance obligation. In the circumstance that the progress cannot be measured reasonably, but the costs incurred in satisfying the performance obligation are expected to be recovered, the Company shall recognize revenue only to the extent of the costs incurred until it can reasonably measure the progress. To determine whether the customer has obtained control of goods, the Company shall consider the following indicators: (1) the Company has a present right to payment for the goods, i.e., the customer is presently obliged to pay for the goods; (2) the Company has transferred the legal title of the goods to the customer, i.e., the customer has legal title to the goods; (3) the Company has transferred physical possession of the goods, i.e., the customer has physically possessed the goods; (4) the Company has transferred significant risks and rewards of ownership of the goods, i.e., the customer has obtained significant risks and rewards of ownership of the goods; (5) the customer has accepted the goods; (6) other indicators showing the customer has obtained control over the goods.

2. Measurement principle

- (1) Revenue is measured at the amount of the transaction price that is allocated to each performance obligation. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and those expected to be refunded to the customer.
- (2) If the consideration promised in a contract includes a variable amount, the Company shall estimate the amount of consideration at expected value or the most likely amount. The Company shall include in the transaction price the amount of variable consideration only to the extent that it is high probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- (3) If there is a significant financing component in the contract, the company determines the transaction price based on the amount payable in cash when the client assumes control of the goods or services. The difference between the transaction price and the contract consideration is amortized using the effective interest method during the contract period. On the contract start date, the company expects that the customer's control over the purchase of goods or services and the payment of the customer's price are not more than one year, regardless of the major financing components in the contract.
- (4) If the contract includes two or more performance obligations, the company shall distribute the transaction price to each individual performance obligation on the contract start date according to the relative proportion of the individual selling prices of the commodities promised by each individual performance obligation.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Revenue (Continued)

3. Income recognize method

Income recognize by timing

The company sells copper cables and related products, optical cables and related products, wire casings and related products, etc., and fulfills the performance obligations at a certain point in time. The confirmation of the revenue of domestic products must meet the following conditions: the company has delivered the products to the customer according to the contract and the customer has accepted the goods, the payment has been recovered or the receipt of the receipt has been obtained, and the relevant economic benefits are likely to flow in, the main risk of ownership of the goods. And the remuneration has been transferred and the legal title of the goods has been transferred. The confirmation of the income of the exported products shall meet the following conditions: the company has declared the goods according to the contract, obtained the bill of lading, has recovered the payment or obtained the receipt certificate and the relevant economic benefits are likely to flow in, and the main risks and rewards of the ownership of the goods have been transferred. The legal title of the goods has been transferred.

(XXIII) Government grants

1. Government grants shall be recognized if, and only if, the following conditions are all met: (1) the Company will comply with the conditions attaching to the grants; (2) the grants will be received. Monetary government grants are measured at the amount received or receivable. Non-monetary government grants are measured at fair value, and can be measured at nominal amount in the circumstance that fair value can't be assessed.

2. Government grants related to assets

Government grants related to assets are government grants with which the Company construct or otherwise acquire long-term assets under requirements of government. In the circumstances that there is no specific government requirement, the Company shall determine based on the primary condition to acquire the grants and government grants related to assets are government grants whose primary condition is to construct or otherwise acquire long-term assets. They offset carrying amount of relevant assets or recognized as deferred income. If recognized as deferred income, they are included in profit or loss on a systematic basis over the useful lives of the relevant assets. Those measured at notional amount is directly included into profit or loss. For assets sold, transferred, disposed or damaged within the useful lives, balance of unamortized deferred income is transferred into profit or loss of the year in which the disposal occurred.

3. Government grants related to income

Government grants related to income are government grants other than those related to assets. For government grants that contain both parts related to assets and parts related to income, in which those two parts are blurred and thus collectively classified as government grants related to income. For government grants related to income used for compensating the related future cost, expenses or losses of the Company are recognized as deferred income and are included in profit or loss or offset relevant cost during the period in which the relevant cost, expenses or losses are recognized; for government grants related to income used for compensating the related cost, expenses or losses incurred to the Company, they are directly included in profit or loss or directly offset relevant cost.

4. Government grants related to the ordinary course of business shall be included into other income or offset relevant cost based on business nature, while those not related to the ordinary course of business shall be included into non-operating revenue or expenditures.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.
2. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.
3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.
4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (a) business combination; and (b) the transactions or items directly recognized in equity.

(XXV) Lease

When a company is a lessee, during each period of the lease period, the rent is included in the cost of related assets or recognized as current profits and losses according to the straight line method. The initial direct expenses incurred are directly included in the current profits and losses. Contingent rents are included in current profits and losses when they actually occur.

When a company is a lessor, during each period of the lease period, the rent is recognized as the current profit and loss according to the straight line method. The initial direct expenses incurred are directly included in the current profit and loss, except that the larger amount is capitalized and divided into the profits and losses in stages. Contingent rents are included in current profits and losses when they actually occur.

(XXVI) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. An operating segment is a component of the Company that:

- (1) engages in business activities from which it may earn revenues and incur expenses;
- (2) whose financial performance are regularly reviewed by Management to make decisions about resource to be allocated to the segment and assess its performance; and
- (3) for which financial information regarding financial position, financial performance and cash flows is available.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Recognition criteria and accounting treatment of discontinued operations

A component of the Company that has been disposed of, or is classified as held for sale and can be clearly distinguished is recognized as a discontinued operation when it fulfills any of the following conditions:

- (1) it represents a separate major line of business or a separate geographical area of operations;
- (2) it is part of a related plan to dispose of a separate major line of business or a separate geographical area of operations; or
- (3) it is a subsidiary acquired exclusively with a review to resale.

Please refer to notes to discontinued operations under other significant events for details.

(XXVIII) Critical accounting judgments and estimates

In the course of preparing financial statements, the Company has used estimates and assumptions, which may have effects on the application of accounting policies and amount of assets, liabilities, revenue and expenses. Concerning the discrepancy in practice, the Company performs ongoing assessment on key assumptions and key sources of estimation uncertainty. Effects arising from changes in accounting estimates are recognized at the period when such change occurs and subsequent period onwards.

Key sources of estimation uncertainty are:

1. Recognition of deferred tax assets

As stated in deferred tax assets/liabilities under section III, deferred tax assets are recognized based on the deductible temporary difference (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) between the carrying amount and the tax base of assets or liabilities and the applicable tax rate at the time when such asset is collected or such liability is liquidated. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference.

2. Impairment of financial instruments and contract assets

As stated in financial instruments under section III, the Company, on the basis of expected credit loss, recognizes loss allowances of financial assets at amortized cost (notes receivable and accounts receivable, other receivables, debt investments, long-term receivables), debt instrument investments (other debt investments), lease receivable at fair value through other comprehensive income.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Critical accounting judgments and estimates (Continued)

3. Provision for inventory write-down

As stated in inventories under section III, at the balance sheet date, inventories are measured at the lower of cost or net realizable value; provision for inventory write-down is made on the difference between the cost and the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. Impairment of non-current assets

As stated in impairment of part of non-current assets under section III, for non-current assets such as investment property at cost model, fixed assets, construction in progress, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of group of assets. When the measurement result indicates that the recoverable amount of such non-current assets is lower than their carrying amount, the carrying amount is reduced to the recoverable amount, and the difference is recognized as assets impairment loss through profit or loss, and provision for impairment loss of assets is made accordingly.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes

- (i) The Company prepares the 2018 financial statements in accordance with the “Notice of the Ministry of Finance on Amending the Format of the 2018 Annual Financial Statements of the General Enterprise” (Accounting [2018] No. 15) and the interpretation along with the requirement of accounting standards. This accounting policy change adopts the retrospective adjustment method. The report items and amounts that are significantly which affected the 2017 annual financial statements are as follows:

| Items and amounts of the original statement | | Items and amounts of the new statement | |
|---|----------------|--|-----------------------|
| Notes receivables | 98,266,619.18 | Notes receivables and | 221,134,776.61 |
| Account payables | 122,868,157.43 | account payable | |
| Interest receivables | | | |
| Dividend receivable | | | |
| Other receivables | 23,985,338.43 | Other receivables | 23,985,338.43 |
| Project in progress | 2,149,526.26 | Project in progress | 20,268,614.42 |
| Construction materials | 18,119,088.16 | | |
| Notes payable | | Notes payable and | 103,292,947.56 |
| Account payables | 103,292,947.56 | account payables | |
| Interest payables | | | |
| Dividend payables | | | |
| Other payables | 40,501,877.44 | Other payables | 40,501,877.44 |
| Administration expense | 71,740,458.40 | Administration expense | 65,660,133.85 |
| | | Development cost | 6,080,324.55 |
| Other income | 20,284,061.40 | Other income | 20,340,120.88 |
| Non-operation income | 712,813.47 | Non-operation income | 656,753.99 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes (Continued)

- (ii) Since January 1, 2018, the company has implemented the 'revised Accounting Standards for Business Enterprises No. 14 — Income' (hereinafter referred to as the New Income Standard) 'the Accounting Standards for Business Enterprises No. 22 — Confirmation of Financial Instruments and Measurement' 'Accounting Standards for Business Enterprises No. 23 — Transfer of Financial Assets', 'Accounting Standards for Business Enterprises No. 24 — Hedging' and 'Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments' (hereinafter referred to as the Guidelines for New Financial Instruments). According to the accounting standards convergence rules, the information of the comparable period will not be adjusted. The difference between the implementation of the new standard and the original standard on the first implementation date is retrospectively adjusted to the retained earnings or other comprehensive income at the beginning of the reporting period.

1. Implementation of new income standard

The implementation of the new income standard on the company's financial statements of January 1, 2018 as below:

| Items | Statement of financial position implementation of the new income standard | | |
|-----------------------|--|----------------|---------------|
| | 2017/12/31 | | 2018/1/1 |
| Receipt in advance | 28,280,760.70 | -27,768,949.00 | 511,811.70 |
| Contractual liability | | 27,768,949.00 | 27,768,949.00 |

2. Implementation of new financial instruments standards

The new financial instrument standard has changed the classification and measurement of financial assets, and has identified three major measurement categories: amortized cost; measured at fair value and its changes included in other comprehensive income; measured at fair value and changes included in profit and loss. The company considers its own business model and the contractual cash flow characteristics of financial assets to carry out the above classification. Equity investments are measured at fair value and counted in profit&loss, but they can be measured at fair value and their changes are included in other comprehensive income at the initial recognition (gains or losses at disposal cannot be transferred to profit or loss, dividend income can included in the current period profit&loss), and the choice is irrevocable.

The new financial instrument standard requires that the measurement of impairment of financial assets be changed from the "loss model" to the "expected credit loss model", which is applicable to financial assets measured at amortized cost, financial assets measured at fair value and whose changes are included in other comprehensive income, and lease receivables.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes (Continued)

(II) (Continued)

2. Implementation of new financial instruments standards (Continued)

On January 1, 2018, the company's financial assets and liabilities are classified and measured according to the new financial instrument standard and the original financial instrument standards. The following table is compared:

| Items | Original financial instrument rule | | New financial instrument rule | |
|-------------------------|------------------------------------|----------------|---|-----------------------|
| | Calculate category | Book value | Calculate category | Book value |
| Bank | Debt and receivables | 500,500,027.48 | Amortization cost | 500,500,027.48 |
| Other monetary fund | Debt and receivables | 2,201,588.64 | Amortization cost | 2,201,588.64 |
| Notes receivables | Debt and receivables | 98,266,619.18 | Amortization cost | 98,213,845.44 |
| Account receivables | Debt and receivables | 122,868,157.43 | Amortization cost | 116,320,795.38 |
| Other receivables | Debt and receivables | 23,985,338.43 | Amortization cost | 24,306,059.80 |
| Other equity instrument | Financial assets ready for sale | 4,215,948.00 | Measure at fair value through other comprehensive income | 4,215,948.00 |
| Account payables | Other financial debt | 103,292,947.56 | Amortization cost | 103,292,947.56 |
| Other payables | Other financial debt | 40,501,877.44 | Amortization cost | 40,501,877.44 |
| Long term debt | Other financial debt | 7,409,015.78 | Amortization cost | 7,409,015.78 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes (Continued)

(II) (Continued)

2. Implementation of new financial instruments standards (Continued)

On January 1, 2018, the book value of the original financial assets and liabilities was adjusted to the book value of the new financial assets and liabilities classified and measured according to the new financial instrument standards as follows:

| Items | Book value shown in accordance with the original Financial Instruments Standards (31 December 2017) | Re-classify | Re-calculate | Book value according to the new financial instrument guidelines (January 1, 2018) |
|--|---|-------------|---------------|--|
| Amortization cost | | | | |
| Bank and cash | | | | |
| Balance by original CAS22 | | | | |
| and by new CAS22 | 500,500,027.48 | | | 500,500,027.48 |
| Other monetary funds | | | | |
| Balance by original CAS22 | | | | |
| and by new CAS22 | 2,201,588.64 | | | 2,201,588.64 |
| Notes receivables | | | | |
| Balance by original CAS22 | 98,266,619.18 | | | |
| Recalculate: Provision for credit loss | | | -52,773.74 | |
| Balance by new CAS22 | | | | 98,213,845.44 |
| Account receivables | | | | |
| Balance by original CAS22 and by new CAS22 | 122,868,157.43 | | | |
| Recalculate: Provision for credit loss | | | -6,547,362.05 | |
| Balance by new CAS22 | | | | 116,320,795.38 |
| Other receivables | | | | |
| Balance by original CAS22 and by new CAS22 | 23,985,338.43 | | | |
| Recalculate: Provision for credit loss | | | 320,721.37 | |
| Balance by new CAS22 | | | | 24,306,059.80 |
| Total financial assets measured at amortized cost | 747,821,731.16 | | -6,279,414.42 | 741,542,316.74 |
| Account payables | | | | |
| Balance by original CAS22 and by new CAS22 | 103,292,947.56 | | | 103,292,947.56 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes (Continued)

(II) (Continued)

2. Implementation of new financial instruments standards (Continued)

| Items | Book value shown in accordance with the original Financial Instruments Standards (31 December 2017) | Re-classify | Re-calculate | Book value according to the new financial instrument guidelines (January 1, 2018) |
|--|---|--------------|--------------|--|
| Other payables | | | | |
| Balance by original CAS22 and by new CAS22 | 40,501,877.44 | | | 40,501,877.44 |
| Long-term debt | | | | |
| Balance by original CAS22 and by new CAS22 | 7,409,015.78 | | | 7,409,015.78 |
| Total financial liabilities measured at amortized cost | 151,203,840.78 | | | 151,203,840.78 |
| Measured at fair value and included in other comprehensive earnings | | | | |
| Financial asset available for sale | | | | |
| Balance by original CAS22 | 4,215,948.00 | | | |
| Less: Transfer to other equity instruments | | 4,215,948.00 | | |
| Balance by new CAS22 | | | | |
| Other right investment | | | | |
| Balance by original CAS22 | | | | |
| Plus: Transfer from ready to Sale category (Former CAS22) | | 4,215,948.00 | | |
| Balance by new CAS22 | | | | 4,215,948.00 |
| Total financial assets measured at fair value and included in other comprehensive income | 4,215,948.00 | | | 4,215,948.00 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Important accounting policy changes (Continued)

(II) (Continued)

2. Implementation of new financial instruments standards (Continued)

On January 1, 2018, the final amount of the company's original financial asset impairment reserve was adjusted to the new loss reserve, which was classified and measured according to the new financial instrument standards, as follows:

| Items | Provision for loss based on the original financial instrument standards | Re-classify | Re-calculate | Provision for loss based on the new financial instrument standards |
|--|---|-------------|--------------|--|
| | (31 December 2017) | | | (January 1, 2018) |
| Loans and receivables (former CAS22)/financial assets measured at amortized cost (new CAS22) | | | | |
| Notes receivables | | | 52,773.74 | 52,773.74 |
| Account receivables | 52,726,764.67 | | 6,547,362.05 | 59,274,126.72 |
| Other receivables | 28,917,319.51 | | -320,721.37 | 28,596,598.14 |
| Total | 81,644,084.18 | | 6,279,414.42 | 87,923,498.6 |
| Holding to maturity (original CAS22)/financial assets measured at amortized cost (new CAS22) | | | | |
| Debt investment | 60,000.00 | | | 60,000.00 |

(III) In 2017, the Ministry of Finance composed the "Accounting Standards for Business Enterprises Interpretation No. 9 — Accounting Treatment of Net Loss of Investment under the Equity Method", "Enterprise Accounting Standards Interpretation No. 10 — Revenue arising from the use of fixed assets is The basic depreciation method" "Enterprise Accounting Standards Interpretation No. 11 — Amortization Method Based on Income from the Use of Intangible Assets" and "Enterprise Accounting Standards Interpretation No. 12 — Provision of Key Management Personnel Services and Whether the recipient is a related party". The company has implemented the accounting standards since January 1, 2018. The implementation of the above explanation has no impact on the company's initial financial data.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018 Currency Unit: RMB

IV. TAX

(I) Major taxes and tax rates

| Taxes | Tax bases | Tax rates |
|--|--|--|
| Value-added tax (VAT) | The taxable revenue from sales of goods or rendering of services | 17%,16% notes |
| Housing property tax | For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at the rate of 12% of rent revenue. | 1.2%,12% |
| Urban maintenance and construction tax | Turnover tax payable | 7% |
| Education surcharge | Turnover tax payable | 3% |
| Local education surcharge | Turnover tax payable | 2% |
| Enterprise income tax | Taxable income | 15%,25% |
| Urban and township land use tax | Actual area of land occupied | 6 yuan/m ² , 8 yuan/m ² |

Note: According to the Finance and Taxation [2018] No. 32 issued by the Ministry of Finance and the State Administration of Taxation. Taxpayers who have incurred VAT sales shall adjusted the original tax rates from 17% and 11% to 16% and 10% respectively since May 1, 2018.

Corporate income tax rate for taxpayers with different tax rates

| Taxpayers | Income tax rate |
|---|-----------------|
| The Company | 15% |
| Chengdu SEI Optical Fiber Co., Ltd. | 15% |
| Chengdu Telecom Cable Shuangliu Heat Shrinkable Product Plant | 25% |
| Chengdu Zhongling Radio Communications Co., Ltd. | 15% |
| Chongqing Putaifeng Aluminium Co., Ltd. | 25% |

(II) Tax incentives

According to the "Management for the High-tech Enterprises" (GUOKEFAHUO [2016] No. 32) and the "Guidelines for the Management of High-tech Enterprises Certification" (GUOKEFAHUO [2016] No. 195), the company which was recognized as a high-tech enterprise are entitled to a 15% preferential income tax rate valid for three years (2018 to 2020).

According to the "Management for the High-tech Enterprises" (GUOKEFAHUO [2016] No. 32) and the "Guidelines for the Management of High-tech Enterprises Certification" (GUOKEFAHUO [2016] No. 195), the subsidiary company Chengdu Zhongzhu Fiber Co., Ltd. and Chengdu Zhongling Wireless Communication Cable Co., Ltd. have been recognized as high-tech enterprises, they were entitled 15% income tax rate, valid for three years (2017–2019).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to consolidated statement of financial position

1. Monetary funds

(1) Details

| Items | Closing bal. | Opening bal. |
|----------------------|-----------------------|----------------|
| Cash | 19,963.86 | 38,363.08 |
| Bank | 427,169,522.44 | 500,500,027.48 |
| Other monetary funds | 14,808,199.10 | 2,201,588.64 |
| Total | 441,997,685.40 | 502,739,979.20 |

Including: Total amount of money deposited oversea

(2) Other instructions

At the end of the period, the other currency funds of RMB14,808,199.09 are the deposit for the letter of credit, and the bank deposits include the pledged fixed deposits. The above are the status of the restricted use currency funds.

2. Notes receivable and accounts receivable

(1) Details

1) Details by category

| Categories | Book balance | | Closing balance | | |
|--|-----------------------|---------------|----------------------|--------------------------|-----------------------|
| | Amount | % to total | Amount | Provision proportion (%) | Carrying amount |
| Receivables with provision for bad debts made on an individual basis | 22,386,293.35 | 7.63 | 22,386,293.35 | 100.00 | |
| Including: Accounts receivable | 22,386,293.35 | 7.63 | 22,386,293.35 | 100.00 | |
| Receivables with provision for bad debts made on a collective basis | 271,175,209.67 | 92.37 | 42,959,732.26 | 15.84 | 228,215,477.41 |
| Including: Notes receivable | 113,082,759.28 | 38.52 | 187,149.08 | 0.17 | 112,895,610.20 |
| Accounts receivable | 158,092,450.39 | 53.85 | 42,772,583.18 | 27.06 | 115,319,867.21 |
| Total | 293,561,503.02 | 100.00 | 65,346,025.61 | 22.26 | 228,215,477.41 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

2. Notes receivable and accounts receivable (Continued)

(1) Details (Continued)

1) Details by category (Continued)

| Categories | Book balance | | Opening balance | | Carrying amount |
|---|-----------------------|---------------|-----------------------------------|-----------------------------|-----------------------|
| | Amount | % to total | Provision for bad debts Amount | Provision proportion (%) | |
| Receivables with provision made on a collective basis using portfolios with similar credit risk features | 156,340,265.40 | 89.03 | 33,472,107.97 | 21.41 | 122,868,157.43 |
| Receivable of individually insignificant amount but with provision made on an individual basis | 19,254,656.70 | 10.97 | 19,254,656.70 | 100.00 | |
| Total | 175,594,922.10 | 100.00 | 52,726,764.67 | 30.03 | 122,868,157.43 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

2. Notes receivable and accounts receivable (Continued)

(1) Details (Continued)

2) Receivables and accounts receivable for provision for bad debts at the end of the period

| Debtors | Book balance | Provision for bad debts | Provision proportion (%) | Reasons |
|---|---------------|-------------------------|--------------------------|--|
| Account receivables | | | | |
| Dongfang Electric New Energy Equipment (Hangzhou) Co., Ltd. | 2,580,313.34 | 2,580,313.34 | 100.00 | Liquidation procedures in process not expect to be collected |
| KABKableprektionAB | 2,058,597.74 | 2,058,597.74 | 100.00 | Long receivable days, not expect to be collected |
| Shenyang Hengyuanda Communication Equipment Co., Ltd. | 1,621,814.62 | 1,621,814.62 | 100.00 | License revoked, not expect to be collected |
| Chuandong Electrical and Mechanical Company | 1,606,692.41 | 1,606,692.41 | 100.00 | Long receivable days, not expect to be collected |
| Wushi Zhida Electronics Co., Ltd. | 1,344,969.65 | 1,344,969.65 | 100.00 | License revoked, not expect to be collected |
| Zhongan Company, China Postal and Electrical Material Company | 1,116,797.27 | 1,116,797.27 | 100.00 | Long receivable days, not expect to be collected |
| Henan Qingfeng County Industry and Commerce Co., Ltd. | 1,007,986.64 | 1,007,986.64 | 100.00 | Long receivable days, not expect to be collected |
| Chengdu Optical Communication Network Development Co., Ltd. | 847,136.75 | 847,136.75 | 100.00 | Long receivable days, not expect to be collected |
| Sichuan Xinlong Network Technology Company | 767,402.64 | 767,402.64 | 100.00 | Long receivable days, not expect to be collected |
| Shenzhen Alliance Electronics Co., Ltd. | 616,075.20 | 616,075.20 | 100.00 | Long receivable days, not expect to be collected |
| Qingyang television | 609,572.00 | 609,572.00 | 100.00 | Long receivable days, not expect to be collected |
| Dayuan New Materials Trading Company | 592,065.60 | 592,065.60 | 100.00 | Long receivable days, not expect to be collected |
| Others | 7,616,869.49 | 7,616,869.49 | 100.00 | Long receivable days, not expect to be collected |
| Subtotal | 22,386,293.35 | 22,386,293.35 | 100.00 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

2. Notes receivable and accounts receivable (Continued)

(1) Details (Continued)

3) Bad debt provision for Notes receivables with combined method

| Items | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|----------------------------|----------------|---|-----------------------------|
| Bank acceptance portfolio | 94,566,177.70 | 94,566.17 | 0.10 |
| Trade acceptance portfolio | 18,516,581.58 | 92,582.91 | 0.50 |
| Subtotal | 113,082,759.28 | 187,149.08 | 0.17 |

4) In the non-related party portfolio of accounts receivable, the bad debt provision for account receivables are calculated using the aging loss rate comparison table.

| Ages | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|---------------|----------------|---|-----------------------------|
| Within 1 year | 107,377,614.10 | 6,655,550.47 | 6.20 |
| 1-2 years | 3,224,503.30 | 1,113,663.19 | 34.54 |
| 2-3 years | 1,838,736.87 | 1,351,193.92 | 73.48 |
| Over 3 years | 36,926,396.50 | 33,608,549.60 | 91.01 |
| Subtotal | 149,367,250.77 | 42,728,957.18 | 28.61 |

5) For the related parties accounts receivable, bad debt provision are calculated using the aging loss rate comparison table.

| Ages | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|---------------|--------------|---|-----------------------------|
| Within 1 year | 8,725,199.62 | 43,626.00 | 0.50 |
| Subtotal | 8,725,199.62 | 43,626.00 | 0.50 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

2. Notes receivable and accounts receivable (Continued)

(2) *Relievable days analysis*

| Ages | Book balance | Closing balance | |
|---------------|-----------------------|----------------------------|-----------------------------|
| | | Provision for bad debts | Provision proportion (%) |
| Within 1 year | 229,185,573.00 | 6,886,325.55 | 3.00 |
| 1–2 years | 3,224,503.30 | 1,113,663.19 | 34.54 |
| 2–3 years | 4,419,050.21 | 3,931,507.26 | 88.97 |
| Over 3 years | 56,732,376.51 | 53,414,529.61 | 94.15 |
| Total | 293,561,503.02 | 65,346,025.61 | 22.26 |

The notes receivable and accounts receivable are accounted based on the month in which the transaction actually occur and follow a first in first out method.

The credit period granted to customers is generally about 12 months. The notes generally expire within 6 months from the date of issue. Outstanding receivables will reviewed by management on regular basis.

(3) *Changes in bad debts provision*

| Items | January 1, 2018 | Provision made | Increase | | Decrease | | Closing balance |
|---------------------|--------------------|-------------------|------------------------|--------|-----------------------|--------------------------|--------------------|
| | | | Provision collected | Others | Provision reversed | Provision written off | |
| Notes receivable | 52,773.74 | 134,375.34 | | | | | 187,149.08 |
| Accounts receivable | 59,274,126.72 | 5,884,749.81 | | | | | 65,158,876.53 |
| Subtotal | 59,326,900.46 | 6,019,125.15 | | | | | 65,346,025.61 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

2. Notes receivable and accounts receivable (Continued)

(4) Top 5 account receivables ranking high to low

| Debtors | Book balance | Proportion to the total balance of accounts receivable (%) | Provision for bad debts |
|---|---------------|--|-------------------------|
| Shenzhen ZTE Kangxun Telecom Company Limited | 45,888,947.76 | 25.43 | 3,597,693.50 |
| CRRC Zhuzhou Locomotive Co., Ltd. | 15,492,200.79 | 8.58 | 1,214,588.54 |
| China Potevio Company Limited | 8,725,199.62 | 4.83 | 43,626.00 |
| Jiangsu Ronglian Technology Development Co., Ltd. | 4,771,707.00 | 2.64 | 73,484.29 |
| Zhuzhou CRRC Times Electric Co., Ltd. | 4,427,976.23 | 2.45 | 347,153.34 |
| Subtotal | 79,306,031.40 | 43.93 | 5,276,545.67 |

(5) The company has endorsed or discounted the notes receivable that have not yet expired on the balance sheet date.

| Items | Closing balance derecognized | Closing balance not yet derecognized |
|-----------------|------------------------------|--------------------------------------|
| Bank acceptance | 57,324,622.81 | |
| Subtotal | 57,324,622.81 | |

The acceptor of the bank acceptance bill is a commercial bank. Since the commercial bank has a higher credit, the bank acceptance bill is less likely unable to get paid, so the company terminate the bank acceptance bill that has been endorsed or discounted. However, if the bills are not paid when its due, the company will still liable to the notes holder in accordance of "the Bills Act".

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

3. Advances paid

(1) Age analysis

| Ages | Book balance | Closing balance | | Carrying amount |
|---------------|----------------------|-----------------|-------------------------|----------------------|
| | | % to total | Provision for bad debts | |
| Within 1 year | 16,543,059.23 | 99.00 | | 16,543,059.23 |
| 1–2 years | 10,925.00 | 0.07 | | 10,925.00 |
| 2–3 years | 43,564.76 | 0.26 | | 43,564.76 |
| Over 3 years | 112,329.32 | 0.67 | | 112,329.32 |
| Total | 16,709,878.31 | 100.00 | | 16,709,878.31 |

| Ages | Book balance | Opening balance | | Carrying amount |
|---------------|---------------|-----------------|-------------------------|-----------------|
| | | % to total | Provision for bad debts | |
| Within 1 year | 13,991,890.67 | 49.05 | | 13,991,890.67 |
| 1–2 years | 14,417,939.93 | 50.55 | | 14,417,939.93 |
| 2–3 years | 800.00 | 0.01 | | 800.00 |
| Over 3 years | 112,329.32 | 0.39 | | 112,329.32 |
| Total | 28,522,959.92 | 100.00 | | 28,522,959.92 |

(2) Details of the top 5 largest balance of advance payment

| Debtors | Book balance | Proportion to the total balance of advances paid (%) |
|--|---------------|--|
| Hangzhou Hongyan Industry and Trade Co., Ltd. | 9,009,887.98 | 53.92 |
| Chengdu Customs Office of the People's Republic of China in Zhangzhou Office | 2,328,112.19 | 13.93 |
| Sumitomo Electric Asia Ltd. | 2,142,188.56 | 12.82 |
| China Electronic Systems Engineering Third Construction Co., Ltd. | 837,428.57 | 5.01 |
| Tongling Jinwei Copper Industry Co., Ltd. | 355,866.73 | 2.13 |
| Subtotal | 14,673,484.03 | 87.81 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

4. Other receivables

(1) Details

1) Details on categories

| Categories | Book balance | | Closing balance Provision for bad debts | | Carrying amount |
|--|----------------------|---------------|--|--------------------------|----------------------|
| | Amount | % to total | Amount | Provision proportion (%) | |
| Receivables with provision made on an individual basis | 4,320,646.95 | 10.69 | 4,320,646.95 | 100.00 | |
| Receivables with provision made on a collective basis | 36,111,324.57 | 89.31 | 24,436,800.62 | 67.67 | 11,674,523.95 |
| Total | 40,431,971.52 | 100.00 | 28,757,447.57 | 71.13 | 11,674,523.95 |

| Categories | Book balance | | Opening balance Provision for bad debts | | Carrying amount |
|--|----------------------|---------------|--|--------------------------|----------------------|
| | Amount | % to total | Amount | Provision proportion (%) | |
| Receivables with provision made on a collective basis using portfolios with similar credit risk features | 48,740,143.38 | 92.13 | 24,754,804.95 | 50.79 | 23,985,338.43 |
| Receivable of individually insignificant amount but with provision made on an individual basis | 4,162,514.56 | 7.87 | 4,162,514.56 | 100.00 | |
| Total | 52,902,657.94 | 100.00 | 28,917,319.51 | 54.66 | 23,985,338.43 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

4. Other receivables (Continued)

(1) Details (Continued)

2) Other receivables with provision made on an individual basis

| Debtors | Book balance | Provision for bad debts | Provision proportion (%) | Reasons for provision made |
|--|--------------|-------------------------|--------------------------|--|
| Sichuan Tianxin Investment Group Co., Ltd. | 500,000.00 | 500,000.00 | 100.00 | Aged receivables, not expect to be recovered |
| Chengdu Pike Power Co., Ltd. | 248,940.91 | 248,940.91 | 100.00 | Aged receivables, not expect to be recovered |
| XIACHADE | 3,000,000.00 | 3,000,000.00 | 100.00 | Aged receivables, not expect to be recovered |
| Others | 571,706.04 | 571,706.04 | 100.00 | Aged receivables, not expect to be recovered |
| Subtotal | 4,320,646.95 | 4,320,646.95 | 100.00 | |

3) Other receivables with provision made on a collective basis

| Portfolios | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|-----------------------------|----------------------|--|--------------------------|
| Lease receivable | 4,212,269.51 | 21,061.35 | 0.50 |
| Deposit, reserve, assurance | 5,845,201.13 | 5,740,167.16 | 98.20 |
| Related party | 6,896,666.81 | 34,483.33 | 0.50 |
| Others | 19,157,187.12 | 18,641,088.78 | 97.31 |
| Subtotal | 36,111,324.57 | 24,436,800.62 | 67.67 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

4. Other receivables (Continued)

(2) Changes in provision for bad debts

| Items | January 1, 2018 | Provision made | Increase Provision reversed | Closing balance | Provision reversed | Decrease Provision written off | Others | Closing balance |
|-------------------|-----------------|----------------|-----------------------------------|--------------------|-----------------------|--------------------------------------|--------|--------------------|
| Other receivables | 28,596,598.14 | 160,849.43 | | | | | | 28,757,447.57 |
| Subtotal | 28,596,598.14 | 160,849.43 | | | | | | 28,757,447.57 |

(3) Other receivables categorized by nature

| Nature of receivables | Closing balance | Opening balance |
|---|----------------------|-----------------|
| Deposit, reserve, assurance | 8,146,076.28 | 8,646,815.59 |
| Lease receivable | 4,212,269.51 | |
| Proceeds on disposal of long-term asset | 1,474,780.00 | |
| Loan at call | | 10,000,000.00 |
| Temporary payment receivable | 23,128,845.73 | 34,255,842.35 |
| Government subsidies | 3,470,000.00 | |
| Total | 40,431,971.52 | 52,902,657.94 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

4. Other receivables (Continued)

(4) Details of the 5 largest balances of other receivables

| Debtors | Nature of receivables | Book balance | Ages | Proportion to the total balance of other receivables (%) | Provision for bad debts |
|---|--|---------------|---------------|--|-------------------------|
| Tazishan Material Factory | Temporary payment receivable | 8,391,138.00 | Over 5 years | 20.75 | 8,391,138.00 |
| Tianyun Technology (Suzhou) Co., Ltd. | deposit | 4,786,324.75 | Over 5 years | 11.84 | 4,786,324.75 |
| Shenzhen Fuyu Industrial Co., Ltd. | Temporary payment receivable | 3,566,915.53 | Over 5 years | 8.82 | 3,566,915.53 |
| China Putian Information Industry Group Co., Ltd. | Government grants, deposits receivable | 5,100,942.76 | Within 1 year | 12.62 | 17,350.00 |
| XIACHADE | Temporary payment receivable | 3,000,000.00 | Over 5 years | 7.42 | 3,000,000.00 |
| Subtotal | | 24,845,321.04 | | 61.45 | 19,761,728.28 |

(5) Government grants recognized based on amounts receivable

| Debtors | Items of government grants | Book balance | Ages | Estimated receipt time, amount and basis |
|---|-----------------------------|--------------|---------------|---|
| China Putian Information Industry Group Co., Ltd. | Hardship enterprise subsidy | 3,470,000.00 | Within 1 year | According to the Notice of the Ministry of Finance on the Special Management Grant Fund for the Central Detachable Enterprises of the Central State-owned Capital Operating Budget of 2018 (Treasury [2018] No. 75), China Putian Information Industry Group Co., Ltd. has been on behalf of the Company on November 23, 2018. Received 3.47 million yuan from the special hardship enterprise. |
| Subtotal | | 3,470,000.00 | | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

5. Inventories

(1) Details

| Items | Closing balance | | Carrying amount |
|---|-----------------------|--------------------------|----------------------|
| | Book balance | Provision for write-down | |
| Raw materials | 33,500,215.83 | 2,367,366.02 | 31,132,849.81 |
| Semi-finished goods and work in process | 9,548,784.17 | 1,778,873.37 | 7,769,910.80 |
| Goods on hand | 70,485,682.36 | 20,450,957.29 | 50,034,725.07 |
| Total | 113,534,682.36 | 24,597,196.68 | 88,937,485.68 |

| Items | Opening balance | | |
|---|-----------------|---------------|----------------|
| | Book balance | Book balance | Book balance |
| Raw materials | 29,076,830.41 | 3,209,371.10 | 25,867,459.31 |
| Semi-finished goods and work in process | 13,329,376.98 | 6,494,382.29 | 6,834,994.69 |
| Goods on hand | 91,401,371.08 | 15,760,983.73 | 75,640,387.35 |
| Total | 133,807,578.47 | 25,464,737.12 | 108,342,841.35 |

(2) Provision for inventory write-down

1) Details

| Items | Opening balance | Increase | | Decrease | | Closing balance |
|---|-----------------|---------------|--------|----------|---------------|----------------------|
| | | Provision | Others | Reversal | written-off | |
| Raw materials | 3,209,371.10 | 1,614,662.91 | | 1,810.85 | 2,454,857.14 | 2,367,366.02 |
| Semi-finished goods and work in process | 6,494,382.29 | 775,210.10 | | | 5,490,719.02 | 1,778,873.37 |
| Goods on hand | 15,760,983.73 | 11,007,608.83 | | | 6,317,635.27 | 20,450,957.29 |
| Subtotal | 25,464,737.12 | 13,397,481.84 | | 1,810.85 | 14,263,211.43 | 24,597,196.68 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

5. Inventories (Continued)

(2) Provision for inventory write-down (Continued)

- 2) The provision for impairment in this period is mainly due to the decline in copper prices, which has led to a decline in the realized value of some unsalable rail transit cables and feeder cables. As the price of optical fibers declines, the realized value of some optical fiber products declines. The reasons for determining the net realizable value of the net realizable value, and the reasons for the reversal or resale of inventory depreciation in the current period are as follows:

| Items | Determination basis of net realizable value | Reasons for reversal of provision for inventory write-down | Reasons for written-off of provision for inventory write-down |
|---|---|--|--|
| Raw materials | Estimated selling price of relevant finished goods less cost to be incurred upon completion, estimated selling expenses, and taxes and surcharges | Net realizable value of inventories with provision for inventory write-down made in preceding period increased | Inventories with provision for inventory write-down made in preceding period were sold in current period |
| Semi-finished goods and work in process | Estimated selling price of relevant finished goods less cost to be incurred upon completion, estimated selling expenses, and taxes and surcharges | | Inventories with provision for inventory write-down made in preceding period were sold in current period |
| Goods on hand | Estimated selling price of relevant finished goods less cost to be incurred upon completion, estimated selling expenses, and taxes and surcharges | | Inventories with provision for inventory write-down made in preceding period were sold in current period |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

6. Other current assets

| Items | Closing balance | Opening balance |
|-----------------------------|----------------------|-----------------|
| VAT input tax for deduction | 14,048,727.80 | 14,278,091.00 |
| Total | 14,048,727.80 | 14,278,091.00 |

7. Debt investments

(1) Details

| Items | Closing balance | | | | Carrying amount |
|----------------|------------------|---------------------|------------------|--------------------------|-----------------|
| | Initial cost | Interest adjustment | Interest accrued | Provision for impairment | |
| Corporate bond | 60,000.00 | | | 60,000.00 | |
| Total | 60,000.00 | | | 60,000.00 | |

(2) Provision for impairment of debt investments

| Items | January 1, 2018 | Increase | | Decrease | | Closing balance |
|----------------|-----------------|----------------|--------|--------------------|-----------------------|-----------------|
| | | Provision made | Others | Provision reversed | Provision written off | |
| Corporate bond | 60,000.00 | | | | | 60,000.00 |
| Subtotal | 60,000.00 | | | | | 60,000.00 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

8. Available-for-sale financial assets

| Items | Book balance | Opening balance Provision for impairment | Carrying amount |
|--------------------------------------|----------------------|--|---------------------|
| Available-for-sale debt instrument | | | |
| Available-for-sale equity instrument | 10,840,948.00 | 6,625,000.00 | 4,215,948.00 |
| Including: at fair value | 4,215,948.00 | | 4,215,948.00 |
| at cost | 6,625,000.00 | 6,625,000.00 | |
| Total | 10,840,948.00 | 6,625,000.00 | 4,215,948.00 |

9. Held-to-maturity investments

| Items | Book balance | Opening balance Provision for impairment | Carrying amount |
|----------------------------|------------------|--|-----------------|
| Long-term bond investments | 60,000.00 | 60,000.00 | |
| Total | 60,000.00 | 60,000.00 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

10. Long-term equity investments

(1) Categories

| Items | Book balance | Closing balance Provision for impairment | Carrying amount |
|---------------------------|-----------------------|--|-----------------------|
| Investments in associates | 132,585,852.23 | 125,903.35 | 132,459,948.88 |
| Total | 132,585,852.23 | 125,903.35 | 132,459,948.88 |

| Items | Book balance | Opening balance Provision for impairment | Carrying amount |
|---------------------------|----------------|--|--------------------|
| Investments in associates | 132,787,371.38 | 125,903.35 | 132,661,468.03 |
| Total | 132,787,371.38 | 125,903.35 | 132,661,468.03 |

(2) Investments in associates

| Investees | Opening balance | Investments increased | Investments decreased | Increase/Decrease | |
|---|--------------------|--------------------------|--------------------------|--|---|
| | | | | Investment income recognized under equity method | Adjustment in other comprehensive income |
| Associates | | | | | |
| Chengdu Cable Material Factory | 125,903.35 | | | | |
| Chengdu Bada Connector Co., Ltd. | 5,112,490.56 | | | -380,111.44 | |
| Chengdu Yuexin Communication Materials Co., Ltd. | 1,486,044.63 | | | -847,627.95 | |
| Putian Farr Shengguang Communication Co., Ltd. | 126,062,932.84 | | | 1,026,220.24 | |
| Subtotal | 132,787,371.38 | | | -201,519.15 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

10. Long-term equity investments (Continued)

(2) Investments in associates (Continued)

| Investees | Changes in other equity | Increase/Decrease | | | Closing balance | Closing balance of provision for impairment |
|--|-------------------------|---|--------------------------|--------|-----------------|---|
| | | Cash dividend/ profit declared for distribution | Provision for impairment | Others | | |
| Associates | | | | | | |
| Chengdu Cable Material Factory | | | | | 125,903.35 | 125,903.35 |
| Chengdu Bada Connector Co., Ltd. | | | | | 4,732,379.12 | |
| Chengdu Yuexin Communication Materials Co., Ltd. | | | | | 638,416.68 | |
| Putian Farr Shengguang Communication Co., Ltd. | | | | | 127,089,153.08 | |
| Subtotal | | | | | 132,585,852.23 | 125,903.35 |

11. Other equity instrument investments

(1) Details

| Items | Closing balance | 1 January 2018 | Dividend income | Accumulated amount of gains or losses transferred from other comprehensive income to retained earnings | |
|---|-----------------|----------------|-----------------|--|---------|
| | | | | Amount | Reasons |
| Chengdu High-tech Development Co., Ltd. | 4,977,441.00 | 4,215,948.00 | | | |
| Subtotal | 4,977,441.00 | 4,215,948.00 | | | |

(2) Reasons for equity instrument investments designated as at fair value through other comprehensive income

The Company's equity instrument investment is a long-term investment that the Company plans to hold for strategic purposes. Therefore, the Company designates it as a financial asset measured at fair value through other comprehensive income. The Company uses the fair value as the new book value on 1 January 2018, and the fair value of the investment previously disclosed at fair value of RMB2,979,042.34 is still included in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

12. Investment property

(1) Details

| Items | Buildings and structures | Total |
|---|--------------------------|----------------|
| Cost | | |
| Opening balance | 72,632,296.81 | 72,632,296.81 |
| Increase | 27,605,088.81 | 27,605,088.81 |
| 1) Transferred in from fixed assets | 27,605,088.81 | 27,605,088.81 |
| Decrease in current period | | |
| Closing balance | 100,237,385.62 | 100,237,385.62 |
| Accumulated depreciation and amortization | | |
| Opening balance | 25,300,073.59 | 25,300,073.59 |
| Increase | 8,428,536.56 | 8,428,536.56 |
| 1) Accrual | 2,387,825.22 | 2,387,825.22 |
| 2) Transferred in from fixed assets | 6,040,711.34 | 6,040,711.34 |
| Decrease | | |
| Closing balance | 33,728,610.15 | 33,728,610.15 |
| Carrying amount | | |
| Closing balance | 66,508,775.47 | 66,508,775.47 |
| Opening balance | 47,332,223.22 | 47,332,223.22 |

(2) Investment property with certificate of titles being unsettled

| Items | Carrying amount | Reasons for unsettlement |
|--------------------------|-----------------|--|
| Buildings and structures | 27,434,886.30 | Unsettle due to change of fire regulations |
| Subtotal | 27,434,886.30 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

13. Fixed assets

(1) Details

| Items | Buildings and structures | General equipment | Transport facilities | Other equipment | Total |
|--|-----------------------------|----------------------|-------------------------|--------------------|----------------|
| Cost | | | | | |
| Opening balance | 181,069,452.33 | 376,677,504.60 | 7,078,217.72 | 23,226,686.39 | 588,051,861.04 |
| Increase | 9,200.00 | 378,644.27 | | 370,466.44 | 758,310.71 |
| 1) Acquisition | 9,200.00 | 224,798.11 | | 205,966.21 | 439,964.32 |
| 2) Transferred in from construction in progress | | 153,846.16 | | 164,500.23 | 318,346.39 |
| Decrease | 27,624,380.07 | 88,574,046.36 | 1,670,984.78 | 760,279.75 | 118,629,690.96 |
| 1) Disposal/scrap | 19,291.26 | 80,063,777.13 | 1,670,984.78 | 760,279.75 | 82,514,332.92 |
| 2) Other transfer out | 27,605,088.81 | 8,510,269.23 | | | 36,115,358.04 |
| Closing balance | 153,454,272.26 | 288,482,102.51 | 5,407,232.94 | 22,836,873.08 | 470,180,480.79 |
| Accumulated depreciation | | | | | |
| Opening balance | 58,891,550.54 | 261,484,707.63 | 5,916,775.35 | 16,205,168.67 | 342,498,202.19 |
| Increase | 6,261,314.97 | 13,948,660.04 | 199,128.95 | 1,220,554.43 | 21,629,658.39 |
| 1) Accrual | 6,261,314.97 | 13,948,660.04 | 199,128.95 | 1,220,554.43 | 21,629,658.39 |
| Decrease | 6,054,754.26 | 69,301,349.52 | 1,509,704.82 | 192,048.98 | 77,057,857.58 |
| 1) Disposal/scrap | 14,042.92 | 68,096,227.80 | 1,509,704.82 | 192,048.98 | 69,812,024.52 |
| 2) Other transfer out | 6,040,711.34 | 1,205,121.72 | | | 7,245,833.06 |
| Closing balance | 59,098,111.25 | 206,132,018.15 | 4,606,199.48 | 17,233,674.12 | 287,070,003.00 |
| Provision for impairment | | | | | |
| Opening balance | | 28,686,730.89 | 9,216.58 | 523,712.92 | 29,219,660.39 |
| Increase | | 845,408.74 | | | 845,408.74 |
| 1) Provision made | | 845,408.74 | | | 845,408.74 |
| Decrease | | 11,412,340.04 | 9,216.58 | 496,347.88 | 11,917,904.50 |
| 1) Disposal/scrap | | 7,606,375.85 | 9,216.58 | 496,347.88 | 8,111,940.31 |
| 2) Other transfer out | | 3,805,964.19 | | | 3,805,964.19 |
| Closing balance | | 18,119,799.59 | | 27,365.04 | 18,147,164.63 |
| Carrying amount | | | | | |
| Closing balance | 94,356,161.01 | 64,230,284.77 | 801,033.46 | 5,575,833.92 | 164,963,313.16 |
| Opening balance | 122,177,901.79 | 86,506,066.08 | 1,152,225.79 | 6,497,804.80 | 216,333,998.46 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

13. Fixed assets (Continued)

(2) Fixed assets with certificate of titles being unsettled

| Items | Carrying amount | Reasons for unsettlement |
|---|-----------------|---|
| Chengdu Putian New Materials Co., Ltd. new constructed factory | 31,865,872.95 | Fire control not yet accepted due to change on fire regulations |
| Subtotal | 31,865,872.95 | |

14. Construction in progress

(1) Details

| Items | Closing balance | Opening balance |
|--------------------------|----------------------|-----------------|
| Construction in progress | 12,439,412.34 | 2,149,526.26 |
| Construction materials | 18,119,088.16 | 18,119,088.16 |
| Total | 30,558,500.50 | 20,268,614.42 |

(2) Construction in progress

1) Details

| Projects | Book balance | Closing balance Provision for impairment | Carrying amount |
|---|----------------------|--|----------------------|
| Comprehensive technical transformation | 6,576,797.90 | 5,919,118.11 | 657,679.79 |
| Aluminum rolling 01 | 1,188,820.65 | 780,081.05 | 408,739.60 |
| China Putian Chengdu Industrial Base supporting plant | 4,050,129.23 | | 4,050,129.23 |
| B07# Utility Engineering | 620,129.16 | | 620,129.16 |
| Other project | 591,527.52 | | 591,527.52 |
| PK2300AG | 1,638,554.80 | | 1,638,554.80 |
| PK8000 | 757,590.61 | | 757,590.61 |
| Air compressor | 110,755.67 | | 110,755.67 |
| Chengdu Putian Shuangchuang Park Planning and Construction Project | 105,122.64 | | 105,122.64 |
| Aluminum rod production line | 3,499,183.32 | | 3,499,183.32 |
| Total | 19,138,611.50 | 6,699,199.16 | 12,439,412.34 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

14. Construction in progress (Continued)

(2) Construction in progress (Continued)

1) Details (Continued)

| Projects | Book balance | Opening balance Provision for impairment | Carrying amount |
|--|--------------|--|-----------------|
| Comprehensive technical transformation | 6,576,797.90 | 5,919,118.11 | 657,679.79 |
| Aluminum rolling 01 | 1,188,820.65 | 729,128.34 | 459,692.31 |
| China Putian Chengdu Industrial | | | |
| Base supporting plant | 642,848.64 | | 642,848.64 |
| B07# Utility Engineering | 366,527.74 | | 366,527.74 |
| Other project | 22,777.78 | | 22,777.78 |
| PK2300AG | | | |
| PK8000 | | | |
| Air compressor | | | |
| Chengdu Putian Shuangchuang Park | | | |
| Planning and Construction Project | | | |
| Aluminum rod production line | | | |
| Total | 8,797,772.71 | 6,648,246.45 | 2,149,526.26 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

14. Construction in progress (Continued)

- (2) Construction in progress (Continued)
- 2) Changes in significant projects

| Projects | Budgets ('0000 yuan) | Opening balance | Increase | Transferred to fixed assets | Other decrease | Closing balance |
|--|-------------------------|---------------------|----------------------|-----------------------------------|-------------------|----------------------|
| Comprehensive technical transformation | 700.00 | 6,576,797.90 | | | | 6,576,797.90 |
| Aluminum rolling 01 | 120.00 | 1,188,820.65 | | | | 1,188,820.65 |
| B07# Utility Engineering | 741.00 | 366,527.74 | 253,601.42 | | | 620,129.16 |
| PK2300AG | 257.00 | | 1,638,554.80 | | | 1,638,554.80 |
| PK8000 | 120.00 | | 757,590.61 | | | 757,590.61 |
| F14#F15# deuterium processing equipment | 18.00 | | 153,846.16 | 153,846.16 | | |
| Air compressor | 12.00 | | 110,755.67 | | | 110,755.67 |
| China Putian Chengdu Industrial Base supporting plant | 733.00 | 642,848.64 | 3,407,280.59 | | | 4,050,129.23 |
| Chengdu Putian Shuangchuang Park Planning and Construction Project | 14,000.00 | | 105,122.64 | | | 105,122.64 |
| Aluminum rod production line | 450.00 | | 3,499,183.32 | | | 3,499,183.32 |
| Other projects | 80.00 | 22,777.78 | 733,249.97 | 164,500.23 | | 591,527.52 |
| Total | 17,231.00 | 8,797,772.71 | 10,659,185.18 | 318,346.39 | | 19,138,611.50 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

14. Construction in progress (Continued)

- (2) Construction in progress (Continued)
2) Changes in significant projects (Continued)

| Projects | Accumulated investment to budget (%) | Completion percentage (%) | Accumulated amount of borrowing cost capitalization | Amount of borrowing cost capitalization in current period | Annual capitalization rate (%) | Fund source |
|--|--------------------------------------|---------------------------|---|---|--------------------------------|--------------|
| Comprehensive technical transformation | 93.95 | 100.00 | | | | Self-raising |
| Aluminum rolling 01 | 99.07 | 90.00 | | | | Self-raising |
| B07# Utility Engineering | 8.37 | 9.00 | | | | Self-raising |
| PK2300AG | 63.76 | 64.00 | | | | Self-raising |
| PK8000 | 63.13 | 64.00 | | | | Self-raising |
| F14#F15# deuterium processing equipment | 85.47 | 100.00 | | | | Self-raising |
| Air compressor | 92.30 | 100.00 | | | | Self-raising |
| China Putian Chengdu Industrial Base supporting plant | 55.25 | 60.00 | | | | Self-raising |
| Chengdu Putian Shuangchuang Park Planning and Construction Project | 0.08 | 0.05 | | | | Self-raising |
| Aluminum rod production line | 77.76 | 75.00 | | | | Self-raising |
| other projects | 94.50 | 95.00 | | | | Self-raising |
| Total | | | | | | |

- 3) Provisions for impairment of construction in progress

| Items | Provision made in current period | Reasons for provision made |
|--------------------------|----------------------------------|----------------------------|
| Aluminum rolling mill 01 | 50,952.71 | Liquidation |
| Subtotal | 50,952.71 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

14. Construction in progress (Continued)

(3) Construction materials

| Items | Closing balance | Opening balance |
|-------------------|----------------------|-----------------|
| Special equipment | 18,119,088.16 | 18,119,088.16 |
| Subtotal | 18,119,088.16 | 18,119,088.16 |

15. Intangible assets

(1) Details

| Items | Land use right | Patent right | Non-patent technology | Total |
|--------------------------|----------------|--------------|-----------------------|---------------|
| Cost | | | | |
| Opening balance | 58,005,842.45 | 1,071,672.28 | 3,738,788.35 | 62,816,303.08 |
| Increase | | | 3,245,283.03 | 3,245,283.03 |
| 1) Acquisition | | | 3,245,283.03 | 3,245,283.03 |
| Decrease | | | | |
| Closing balance | 58,005,842.45 | 1,071,672.28 | 6,984,071.38 | 66,061,586.11 |
| Accumulated amortization | | | | |
| Opening balance | 11,865,939.73 | 946,644.66 | 3,015,011.24 | 15,827,595.63 |
| Increase | 1,282,310.28 | 125,027.62 | 889,328.11 | 2,296,666.01 |
| 1) Accrual | 1,282,310.28 | 125,027.62 | 889,328.11 | 2,296,666.01 |
| Decrease | | | | |
| Closing balance | 13,148,250.01 | 1,071,672.28 | 3,904,339.35 | 18,124,261.64 |
| Provision for impairment | | | | |
| Opening balance | | | | |
| Increase | | | | |
| Decrease | | | | |
| Closing balance | | | | |
| Carrying amount | | | | |
| Closing balance | 44,857,592.44 | | 3,079,732.03 | 47,937,324.47 |
| Opening balance | 46,139,902.72 | 125,027.62 | 723,777.11 | 46,988,707.45 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

15. Intangible assets (Continued)

(2) Analysis of carrying amount of land use right

| Items | Closing balance | Opening balance |
|--------------------------------|----------------------|-----------------|
| Outside Hong Kong | 44,857,592.44 | 46,139,902.72 |
| Including: Mid-term lease note | 44,857,592.44 | 46,139,902.72 |
| | | |
| Subtotal | 44,857,592.44 | 46,139,902.72 |

Note: The remaining lease term is 44 years.

16. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets before offset

| Items | Closing balance | | Opening balance | |
|---------------------------------------|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| | Deductible temporary difference | Deferred tax asset | Deductible temporary difference | Deferred tax asset |
| Provision for impairment of assets | | 47,605,495.85 | | 7,140,824.38 |
| | | | | |
| Total | | 47,605,495.85 | | 7,140,824.38 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

16. Deferred tax assets and deferred tax liabilities (Continued)

(2) *Deferred tax liabilities before offset*

| Items | Closing balance | | Opening balance | |
|--|------------------------------|--------------------------|------------------------------|--------------------------|
| | Taxable temporary difference | Deferred tax liabilities | Taxable temporary difference | Deferred tax liabilities |
| Changes in fair value of available-for-sale financial assets | - | - | 3,504,755.68 | 525,713.35 |
| Changes in fair value of other debt investments | 4,266,248.68 | 639,937.30 | | |
| Total | 4,266,248.68 | 639,937.30 | 3,504,755.68 | 525,713.35 |

(3) *Details of unrecognized deferred tax assets*

| Items | Closing balance | Opening balance |
|---------------------------------|-----------------------|-----------------|
| Deductible temporary difference | 150,357,937.00 | 102,832,135.64 |
| Deductible losses | 225,208,471.92 | 170,442,228.17 |
| Subtotal | 375,566,408.92 | 273,274,363.81 |

(4) *Maturity years of deductible losses of unrecognized deferred tax assets*

| Maturity years | Closing balance | Opening balance | Remarks |
|----------------|-----------------------|-----------------|---------|
| Year 2019 | 25,794,306.01 | 25,794,306.01 | |
| Year 2020 | 61,607,997.54 | 61,607,997.54 | |
| Year 2021 | 54,576,698.48 | 54,576,698.48 | |
| Year 2022 | 28,463,226.14 | 28,463,226.14 | |
| Year 2023 | 54,766,243.75 | | |
| Subtotal | 225,208,471.92 | 170,442,228.17 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

17. Other non-current assets

| Items | Closing balance | Opening balance |
|-------------------------|---------------------|-----------------|
| Prepaid project payment | 8,667,587.21 | |
| Total | 8,667,587.21 | |

18. Notes payable and accounts payable

(1) Details

| Items | Closing balance | Opening balance |
|------------------|----------------------|-----------------|
| Notes payable | | |
| Accounts payable | 63,251,671.34 | 103,292,947.56 |
| Total | 63,251,671.34 | 103,292,947.56 |

(2) Accounts payable

1) Details

| Items | Closing balance | Opening balance |
|----------------------------|----------------------|-----------------|
| Loan | 62,625,788.86 | 103,238,901.56 |
| Engineering, equipment | | 49,850.00 |
| Payable operating expenses | 625,882.48 | 4,196.00 |
| Subtotal | 63,251,671.34 | 103,292,947.56 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

18. Notes payable and accounts payable (Continued)

(2) Accounts payable

2) Age analysis

| Ages | Closing balance | Opening balance |
|---------------|----------------------|-----------------|
| Within 1 year | 53,695,878.49 | 90,653,206.29 |
| 1–2 years | 2,231,973.11 | 2,201,110.27 |
| 2–3 years | 698,082.51 | 7,420,684.92 |
| Over 3 years | 6,625,737.23 | 3,017,946.08 |
| Total | 63,251,671.34 | 103,292,947.56 |

3) Significant accounts payable with age over one year

| Items | Closing balance | Reasons for unsettlement |
|---|-----------------|----------------------------|
| Chengdu Huangshi Shuangfeng Cable Co., Ltd. | 4,690,289.26 | Not yet to settlement time |
| Subtotal | 4,690,289.26 | |

19. Receipt in advance

| Items | Closing balance | Opening balance |
|---------------|-------------------|-----------------|
| Goods | | 27,768,949.00 |
| Lease payment | 381,164.12 | 511,811.70 |
| Total | 381,164.12 | 28,280,760.70 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

20. Employee benefits payable

(1) Details

| Items | Opening balance | Increase | Decrease | Closing balance |
|------------------------------|-----------------|---------------|---------------|----------------------|
| Short-term employee benefits | 27,289,587.17 | 53,082,405.30 | 57,830,500.41 | 22,541,492.06 |
| Post-employment benefits | | | | |
| — defined benefit plan | 267,730.40 | 7,316,524.15 | 7,318,188.45 | 266,066.10 |
| Termination benefits | 11,642,435.36 | -3,946,267.50 | 2,699,903.22 | 4,996,264.64 |
| Total | 39,199,752.93 | 56,452,661.95 | 67,848,592.08 | 27,803,822.80 |

(2) Details of short-term employee benefits

| Items | Opening balance | Increase | Decrease | Closing balance |
|---|-----------------|---------------|---------------|----------------------|
| Wage, bonus, allowance and subsidy | 20,758,658.68 | 43,738,737.87 | 48,399,557.67 | 16,097,838.88 |
| Employee welfare fund | 25,311.90 | 2,430,046.44 | 2,455,358.34 | |
| Social insurance premium | 83,989.27 | 3,282,606.02 | 3,283,700.34 | 82,894.95 |
| Including: Medicare premium | 78,499.65 | 2,888,460.74 | 2,889,484.65 | 77,475.74 |
| Occupational injuries premium | 364.46 | 95,291.47 | 95,328.64 | 327.29 |
| Maternity premium | 5,125.16 | 298,853.81 | 298,887.05 | 5,091.92 |
| Housing provident fund | 14,632.80 | 2,477,342.40 | 2,492,798.20 | -823.00 |
| Trade union fund and employee education fund | 6,406,994.52 | 1,040,547.57 | 1,085,960.86 | 6,361,581.23 |
| Others | | 113,125.00 | 113,125.00 | |
| Subtotal | 27,289,587.17 | 53,082,405.30 | 57,830,500.41 | 22,541,492.06 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

20. Employee benefits payable (Continued)

(3) Details of defined benefit plan

| Items | Opening balance | Increase | Decrease | Closing balance |
|-----------------------------------|-----------------|--------------|--------------|-------------------|
| Basic endowment insurance premium | 268,519.43 | 7,076,351.73 | 7,077,962.93 | 266,908.23 |
| Unemployment insurance premium | -789.03 | 240,172.42 | 240,225.52 | -842.13 |
| Subtotal | 267,730.40 | 7,316,524.15 | 7,318,188.45 | 266,066.10 |

Pursuant to the Labor Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries in the People's Republic of China participated in defined contribution retirement schemes for its employees. The local government authorities are responsible for the entire pension obligations payable to retired employees who reach retirement age pursuant to relevant regulations or quit the work force due to other reasons. The Company and its subsidiaries have no other obligation to make payment in respect of pension benefits.

(4) Other remarks

Chengdu Putian New Materials Co., Ltd., a subsidiary of the Company, convened an interim board of directors on 10 December 2018, and reviewed and approved the "Proposal on Retaining Personnel and Economic Compensation for Chengdu Putian New Materials Co., Ltd.", which was originally given a dismissal of welfare commitments. 38 employees continued to use it, so in the current period, the retired benefits for the previous year were reversed to RMB4,050,361.00.

21. Taxes and rates payable

| Items | Closing balance | Opening balance |
|--|---------------------|-----------------|
| VAT | | 5,432,576.24 |
| Enterprise income tax | 7,421,274.33 | 11,808,846.96 |
| Individual income tax withheld for tax authorities | 161,928.86 | 150,716.48 |
| Urban maintenance and construction tax | 8,608.07 | 382,573.39 |
| Housing property tax | 732.40 | 434,293.41 |
| Land use tax | | 412,160.00 |
| Education surcharge | 3,689.18 | 160,095.30 |
| Local education surcharge | 2,459.45 | 113,171.40 |
| Stamp duty | 104,625.24 | 78,887.43 |
| Total | 7,703,317.53 | 18,973,320.61 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

22. Other payables

| Items | Closing balance | Opening balance |
|----------------------------|----------------------|-----------------|
| Deposits | 2,966,207.38 | 1,579,982.84 |
| Temporary receipts payable | 28,974,062.36 | 37,124,258.90 |
| Others | 6,471,005.04 | 1,797,635.70 |
| Total | 38,411,274.78 | 40,501,877.44 |

23. Contract liabilities

| Items | Closing balance |
|-------|---------------------|
| loans | 7,298,184.05 |
| Total | 7,298,184.05 |

24. Long-term borrowings

(1) Details

| Items | Closing balance | Opening balance |
|--------------------|---------------------|-----------------|
| Secured borrowings | 6,981,019.84 | 7,409,015.78 |
| Total | 6,981,019.84 | 7,409,015.78 |

(2) Analysis of long-term borrowings maturity dates

| Items | Closing balance | Opening balance |
|----------------------------------|---------------------|-----------------|
| Due on demand or within one year | 470,727.67 | 468,028.30 |
| 1–2 years | 470,727.67 | 468,028.30 |
| 2–5 years | 1,412,183.01 | 1,404,084.90 |
| Over 5 years | 4,627,381.49 | 5,068,874.28 |
| Subtotal | 6,981,019.84 | 7,409,015.78 |

(3) Other remarks

The annual interest rate of the loan is 0.5%.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

25. Provisions

| Items | Closing balance | Opening balance | Reasons for balance |
|---------------------------------------|-----------------|-----------------|---------------------|
| Guarantee provided for other entities | | 650,000.00 | |
| Total | | 650,000.00 | |

26. Deferred income

(1) Details

| Items | Opening balance | Increase | Decrease | Closing balance | Reasons for balance |
|-------------------|-----------------|------------|--------------|----------------------|---|
| Government grants | 63,224,691.48 | 906,000.00 | 3,482,131.32 | 60,648,560.16 | Relocation compensation, production intelligent transformation, nuclear grade special cable value and application subsidies |
| Total | 63,224,691.48 | 906,000.00 | 3,482,131.32 | 60,648,560.16 | |

(2) Details of government grants

| Items | Opening balance | Increase | Grants included into profit or loss/offsetting relevant cost Note | Closing balance | Related to assets/income |
|--|-----------------|------------|--|----------------------|--------------------------|
| Shuangliu Land Acquisition Compensation | 62,824,691.48 | | 3,482,131.32 | 59,342,560.16 | assets related |
| Chengdu High-tech Zone Electronic Information Industry Policy Fund | | 906,000.00 | | 906,000.00 | assets related |
| Nuclear grade special cable development and application subsidies | 400,000.00 | | | 400,000.00 | assets related |
| Subtotal | 63,224,691.48 | 906,000.00 | 3,482,131.32 | 60,648,560.16 | |

Note: Please refer to notes to government grants for details on grants included into profit or loss/offsetting relevant cost.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

26. Deferred income (Continued)

(3) *Other remarks*

According to the Supreme County People's Government of Chengdu City, "Reply on the Approval of the Acquisition of Real Estate of Chengdu Cable Shuangliu Heat Shrinking Products Factory" (Shuangfutu [2008] No. 129) and "Management Measures for Land Acquisition and Reserve of Shuangliu County", March 2009, Subsidiary Chengdu Cable Shuangliu Heat Shrinking Products Factory (now known as Chengdu Putian New Materials Co., Ltd.) signed the "State-Owned Land Acquisition Agreement" with Shuangliu County Land Reserve Center, and agreed to Shuangliu County Government to recover the Baijia Town in Shuangliu County, Chengdu for RMB87.2043 million. Nearly the village has 47,767.75 square meters of state-owned land use rights.

27. Share capital

| Items | Opening balance | Movements (Less: decrease) (reduced by "-") | | | | Subtotal | Closing balance |
|----------------------------------|-----------------|---|--------------|-------------------------------|--------|----------|-----------------|
| | | Issue of new shares | Bonus shares | Reserve transferred to shares | Others | | |
| Restricted shares | | | | | | | |
| Held by domestic legal persons | 240,000,000.00 | | | | | | 240,000,000.00 |
| Held by domestic natural persons | | | | | | | |
| Unrestricted shares | | | | | | | |
| A shares | | | | | | | |
| H shares | 160,000,000.00 | | | | | | 160,000,000.00 |
| Total | 400,000,000.00 | | | | | | 400,000,000.00 |

28. Capital reserve

(1) *Details*

| Items | Opening balance | Increase | Decrease | Closing balance |
|-----------------------|-----------------|----------|---------------|-----------------|
| Share premium | 302,343,510.57 | | | 302,343,510.57 |
| Other capital reserve | 349,057,269.26 | | 12,640,657.75 | 336,416,611.51 |
| Total | 651,400,779.83 | | 12,640,657.75 | 638,760,122.08 |

(2) *Other remarks*

In the current period, the Company completed the acquisition of 33.33% equity of Chengdu Putian New Materials Co., Ltd., a subsidiary held by minority shareholders, and reduced the capital reserve by RMB12,640,657.75.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to consolidated statement of financial position (Continued)

29. Other comprehensive income (OCI)

| Items | 1 January 2018 | Current period cumulative before income tax | Current period cumulative | | Attributable to parent company | Attributable to non- controlling shareholders | Closing balance |
|---|-------------------|---|---------------------------|--|--------------------------------------|--|---------------------|
| | | | Less: income tax | Less: OCI carried forward transferred to profit or loss | | | |
| Items not to be reclassified subsequently to profit or loss | 2,979,042.34 | 761,493.00 | 114,223.95 | | 647,269.05 | | 3,626,311.39 |
| Including: Changes in fair value of other equity instrument investments | 2,979,042.34 | 761,493.00 | 114,223.95 | | 647,269.05 | | 3,626,311.39 |
| Total | 2,979,042.34 | 761,493.00 | 114,223.95 | | 647,269.05 | | 3,626,311.39 |

30. Surplus reserve

| Items | Opening balance | Increase | Decrease | Closing balance |
|---------------------------|-----------------|----------|----------|---------------------|
| Statutory surplus reserve | 8,726,923.61 | | | 8,726,923.61 |
| Total | 8,726,923.61 | | | 8,726,923.61 |

31. Undistributed profit

| Items | Current period cumulative | Preceding period comparative |
|--|---------------------------|------------------------------|
| Balance before adjustment at the end of preceding period | -121,848,878.20 | -152,174,233.00 |
| Add: Increase due to adjustment (or less: decrease) | -6,189,834.42 | |
| Opening balance after adjustment | -128,038,712.62 | -152,174,233.00 |
| Add: Net profit attributable to owners of the parent company | -15,012,917.51 | 30,325,354.80 |
| Closing balance | -143,051,630.13 | -121,848,878.20 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement

1. Operating revenue/Operating cost

(1) Details

| Item | Current period cumulative | | Preceding period comparative | |
|------------------|---------------------------|-----------------------|------------------------------|----------------|
| | Revenue | Cost | Revenue | Cost |
| Main operations | 580,793,108.83 | 448,970,914.08 | 729,062,261.07 | 556,664,343.34 |
| Other operations | 33,814,442.32 | 22,651,119.36 | 34,903,792.89 | 27,737,780.57 |
| Total | 614,607,551.15 | 471,622,033.44 | 763,966,053.96 | 584,402,123.91 |

(2) Breakdown of revenue by main categories

| Segments | Copper cable and related products | Optical communication products | Wire bushings and related products | Aluminum rods and related products | Subtotal |
|--|-----------------------------------|--------------------------------|------------------------------------|------------------------------------|----------------|
| Main product types | | | | | |
| Fiber optic products | | 333,655,714.87 | | | 333,655,714.87 |
| Thermal casing | | | 355,247.58 | | 355,247.58 |
| Electrician round aluminum pole | | | | 34,584.44 | 34,584.44 |
| Track cable | 29,917,489.19 | | | | 29,917,489.19 |
| Component processing and component trade | 156,054,586.29 | | | | 156,054,586.29 |
| Electrical equipment | 43,939,309.72 | | | | 43,939,309.72 |
| Feeder | 17,142,797.11 | | | | 17,142,797.11 |
| Lease | 14,432,693.36 | | 4,633,363.74 | | 19,066,057.10 |
| Others | 11,610,443.56 | | 2,479,303.97 | 352,017.32 | 14,441,764.85 |
| Subtotal | 273,097,319.23 | 333,655,714.87 | 7,467,915.29 | 386,601.76 | 614,607,551.15 |
| Revenue recognition time | | | | | |
| Goods (transferred at a point in time) | 258,664,625.87 | 333,655,714.87 | 2,834,551.55 | 386,601.76 | 595,541,494.05 |
| Services (rendered over time) | 14,432,693.36 | | 4,633,363.74 | | 19,066,057.10 |
| Subtotal | 273,097,319.23 | 333,655,714.87 | 7,467,915.29 | 386,601.76 | 614,607,551.15 |

(3) The income recognized in the current period including the book value at the beginning of the contract liability period was RMB21,782,473.80.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement

2. Taxes and surcharges

| Items | Current period cumulative | Preceding period comparative |
|--|------------------------------|---------------------------------|
| Urban maintenance and construction tax | 1,609,094.64 | 2,113,110.75 |
| Education surcharge | 689,611.99 | 901,720.60 |
| Local education surcharge | 459,741.36 | 607,588.26 |
| Stamp duty | 436,241.91 | 357,180.70 |
| Housing property tax | 3,377,232.83 | 3,471,853.46 |
| Land use tax | 2,396,164.60 | 2,396,168.62 |
| Vehicle and vessel tax | 4,560.00 | 5,280.00 |
| Environmental Protection Tax | 7,505.10 | |
| Resources tax | 179.46 | |
| Total | 8,980,331.89 | 9,852,902.39 |

3. Selling expenses

| Items | Current period cumulative | Preceding period comparative |
|----------------------------|------------------------------|---------------------------------|
| Employee's salary | 5,739,264.66 | 6,689,638.69 |
| Shipping fee | 4,554,771.12 | 4,676,648.95 |
| Packaging fee | 1,478,625.34 | 1,732,250.39 |
| Business expenses | 2,000,015.51 | 2,725,763.06 |
| Advertising promotion fee | 1,735,877.87 | 971,587.97 |
| Office and travel expenses | 506,535.35 | 402,173.22 |
| Sales service fee | 2,773,969.56 | 1,435,990.41 |
| Others | 1,055,780.48 | 723,186.33 |
| Total | 19,844,839.89 | 19,357,239.02 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement (Continued)

4. Administrative expenses

(1) Details

| Items | Current period cumulative | Preceding period comparative |
|-------------------------------|------------------------------|---------------------------------|
| Employee benefits | 29,517,287.28 | 36,223,319.61 |
| Depreciation and amortization | 11,373,381.04 | 14,194,587.64 |
| Business Hospitality | 636,663.35 | 618,926.65 |
| Office and travel expenses | 2,119,811.11 | 2,659,911.02 |
| Disability person protection | 235,188.25 | 192,941.27 |
| Agency fee | 2,512,481.50 | 1,757,952.68 |
| Repair fee | 1,939,087.86 | 1,728,257.82 |
| Water and electricity | 2,541,919.30 | 3,217,344.71 |
| Rental fee | 641,283.59 | 678,138.71 |
| Others | 7,862,060.53 | 4,388,753.74 |
| Total | 59,379,163.81 | 65,660,133.85 |

(2) The management fee for the year includes the auditor's remuneration of RMB860,000.00 (2017: RMB880,000.00).

5. R&D expenses

| Items | Current period cumulative | Preceding period comparative |
|------------------------------|------------------------------|---------------------------------|
| Labour cost | 4,432,735.39 | 3,025,950.22 |
| Including: Wage | 3,281,208.53 | 2,212,500.52 |
| Welfare fund | 164,264.88 | 163,669.59 |
| Social insurance premium | 939,334.92 | 627,482.33 |
| Others | 47,927.06 | 22,297.78 |
| Depreciation of fixed assets | 844,323.20 | 2,782,718.86 |
| Others | 282,261.46 | 271,655.47 |
| Total | 5,559,320.05 | 6,080,324.55 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement (Continued)

6. Financial expenses

| Items | Current period cumulative | Preceding period comparative |
|---------------------------|------------------------------|---------------------------------|
| Interest expense: | 111,020.63 | 115,291.76 |
| Interest expense: | 6,036,239.44 | 5,636,863.32 |
| Exchange gains and losses | 1,407,077.52 | 403,970.52 |
| Handling fee | 392,250.02 | 428,340.33 |
| Total | -4,125,891.27 | -4,689,260.71 |

7. Assets impairment loss

| Items | Current period cumulative | Preceding period comparative |
|---|------------------------------|---------------------------------|
| Bad debts | | 1,589,135.08 |
| Inventory write-down loss | 13,395,670.99 | 3,659,529.69 |
| Impairment loss of fixed assets | 845,408.74 | 8,468,559.75 |
| Impairment loss of construction in progress | 50,952.71 | 729,128.34 |
| Total | 14,292,032.44 | 14,446,352.86 |

8. Credit impairment loss

| Items | Current period cumulative |
|-----------|------------------------------|
| Bad debts | 6,179,974.58 |
| Total | 6,179,974.58 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement (Continued)

9. Other income

| Items | Current period cumulative | Preceding period comparative | Amount included in non-recurring profit or loss |
|-------------------------------------|------------------------------|---------------------------------|--|
| Government grants related to assets | 3,482,131.32 | 3,501,110.40 | 3,482,131.32 |
| Government grants related to income | 4,333,496.69 | 16,839,010.48 | 4,333,496.69 |
| Total | 7,815,628.01 | 20,340,120.88 | 7,815,628.01 |

Please refer to notes to government grants for details on grants included into other income.

10. Investment income

| Items | Current period cumulative | Preceding period comparative |
|--|------------------------------|---------------------------------|
| Investment income from long-term equity investments under equity method | -201,519.15 | 8,683,351.35 |
| Total | -201,519.15 | 8,683,351.35 |

11. Gains on asset disposal

| Items | Current period cumulative | Preceding period comparative | Amount included in non-recurring profit or loss |
|-----------------------------------|------------------------------|---------------------------------|--|
| Gains on disposal of fixed assets | -624,084.22 | -2,525,745.35 | -624,084.22 |
| Total | -624,084.22 | -2,525,745.35 | -624,084.22 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement (Continued)

12. Non-operating revenue

| Items | Current period cumulative | Preceding period comparative | Amount included in non-recurring profit or loss |
|-----------------------------|---------------------------|------------------------------|---|
| Gains on debt restructuring | 650,000.00 | | 650,000.00 |
| Government grants | | 150,000.00 | |
| Payments not required | 323,580.30 | 24,873.80 | 323,580.30 |
| Others | 1,723.88 | 481,880.19 | 1,723.88 |
| Total | 975,304.18 | 656,753.99 | 975,304.18 |

13. Non-operating expenditures

| Items | Current period cumulative | Preceding period comparative | Amount included in non-recurring profit or loss |
|----------------------------------|---------------------------|------------------------------|---|
| Donation expenditures | 30,000.00 | 42,000.00 | 30,000.00 |
| Estimate contract breach expense | | 650,000.00 | |
| Compensation expense | 112,213.96 | 111,761.38 | 112,213.96 |
| Forfeit penalty | 29,466.12 | | 29,466.12 |
| Others | 503,471.53 | 947,707.93 | 503,471.53 |
| Total | 675,151.61 | 1,751,469.31 | 675,151.61 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the consolidated income statement (Continued)

14. Income tax expenses

(1) Details

| Items | Current period cumulative | Preceding period comparative |
|------------------------------------|------------------------------|---------------------------------|
| Current period income tax expenses | 15,242,927.08 | 18,790,930.54 |
| Deferred income tax expenses | 7,230,404.38 | 6,994,307.14 |
| Total | 22,473,331.46 | 25,785,237.68 |

(2) Reconciliation of accounting profit to income tax expenses

| Items | Current period cumulative | Preceding period comparative |
|---|------------------------------|---------------------------------|
| Profit before tax | 40,165,923.53 | 94,259,249.65 |
| Income tax expenses based on tax rate adopted by the parent company | 6,024,888.53 | 14,138,887.45 |
| Effect of different tax rate applicable to subsidiaries | -239,402.71 | -459,307.90 |
| Effect of prior income tax reconciliation | -49,527.70 | -59,096.87 |
| Effect of non-deductible costs, expenses and losses | 158,374.20 | 182,170.13 |
| Utilization of deductible losses not previously recognized | | -1,759,267.73 |
| Effect of deductible temporary differences or deductible losses not recognized | 17,728,994.63 | 14,862,281.23 |
| Others | -1,149,995.49 | -1,120,428.63 |
| Income tax expenses | 22,473,331.46 | 25,785,237.68 |

15. Other comprehensive income, net of income tax

Please refer to notes to items of the consolidated balance sheet — other comprehensive income for details.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement

1. Other cash receipts related to operating activities

| Items | Current period cumulative | Preceding period comparative |
|---|---------------------------|------------------------------|
| Other government subsidy income received in addition to tax refunds | 1,769,496.69 | 16,932,951.00 |
| Interest income | 6,036,239.44 | 5,636,863.32 |
| Cash received from operating rental fixed assets (investment real estate) | 29,287,923.56 | 22,763,458.12 |
| Recovered notes and letter of credit deposit | 48,193,614.28 | 54,983,182.90 |
| Others | 3,051,312.26 | 20,872,918.49 |
| Total | 88,338,586.23 | 121,189,373.83 |

2. Other cash payments related to operating activities

| Items | Current period cumulative | Preceding period comparative |
|---|---------------------------|------------------------------|
| Management fee | 18,563,667.25 | 13,211,150.71 |
| Sales expenses | 12,479,703.88 | 12,638,025.91 |
| Financial expenses | 392,250.02 | 428,340.33 |
| Manufacturing costs — rental fees | | 1,042,708.33 |
| Payment of notes and letter of credit deposit | 85,030,091.90 | 48,193,614.28 |
| Others | 13,515,855.30 | 2,972,244.87 |
| Total | 129,981,568.35 | 78,486,084.43 |

3. Other cash receipts related to financing activities

| Items | Current period cumulative | Preceding period comparative |
|--|---------------------------|------------------------------|
| Purchase minority shareholders' equity | 19,500,000.00 | |
| Total | 19,500,000.00 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

4. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

| Supplement information | Current period cumulative | Preceding period comparative |
|---|------------------------------|---------------------------------|
| 1) Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 17,692,592.07 | 68,474,011.97 |
| Add: Provision for assets impairment loss | 14,292,032.44 | 14,446,352.86 |
| Provision for Credit impairment loss | 6,179,974.58 | |
| Depreciation of fixed assets, oil and gas assets, productive biological assets | 24,017,483.61 | 27,974,804.28 |
| Amortization of intangible assets | 2,296,666.01 | 3,241,318.91 |
| Amortization of long-term prepayments | | 7,541.00 |
| Loss on disposal of fixed assets, intangible assets and other non-current assets (Gains express in negative figure) | 624,084.22 | 2,525,745.35 |
| Fixed assets retirement loss (Gains express in negative figure) | | |
| Losses on changes in fair value (Gains express in negative figure) | | |
| Financial expenses (Gains express in negative figure) | -680,264.37 | 1,364,608.64 |
| Investments losses (Gains express in negative figure) | 201,519.15 | -8,683,351.35 |
| Decrease of deferred tax assets (Increase express in negative figure) | 7,230,404.38 | 6,994,307.14 |
| Increase of deferred tax liabilities (Decrease express in negative figure) | | |
| Decrease in inventories (Increase express in negative figure) | 6,009,684.68 | 48,104,532.76 |
| Decrease in operating receivables (Increase express in negative figure) | -32,930,482.62 | -21,693,570.94 |
| Increase of operating payables (Decrease express in negative figure) | -87,500,595.37 | 19,123,886.83 |
| Others | | |
| Net cash flow from operating activities | -42,566,901.22 | 161,880,187.45 |
| 2) Significant investing and financing activities not related to cash receipts and payments: | | |
| Conversion of debt into share capital | | |
| Convertible bonds due within one year | | |
| Fixed assets rented in under finance leases | | |
| 3) Net changes in cash and cash equivalents: | | |
| Cash at the end of the period | 356,967,593.50 | 454,546,364.92 |
| Less: Cash at the beginning of the period | 454,546,364.92 | 331,032,951.89 |
| Add: Cash equivalents at the end of the period | | |
| Less: Cash equivalents at the beginning of the period | | |
| Net increase of cash and cash equivalents | -97,578,771.42 | 123,513,413.03 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

4. Supplement information to the cash flow statement (Continued)

(2) Cash and cash equivalents

| Items | Closing balance | Opening balance |
|--|-----------------------|-----------------|
| 1) Cash | 356,967,593.50 | 454,546,364.92 |
| Including: Cash on hand | 19,963.86 | 38,363.08 |
| Cash in bank on demand for payment | 356,947,629.63 | 454,508,001.83 |
| Other cash and bank balances on demand for payment | 0.01 | 0.01 |
| Central bank deposit on demand for payment | | |
| Deposit in other banks | | |
| Loans to other banks | | |
| 2) Cash equivalents | | |
| Including: Bond investments maturing within three months | | |
| 3) Cash and cash equivalents at the end of the period | 356,967,593.50 | 454,546,364.92 |
| Including: Cash and cash equivalents of parent company or subsidiaries with use restrictions | | |

(3) Amount of endorsed commercial acceptance not involving cash receipts and payments

| Items | Current period cumulative | Preceding period comparative |
|--|---------------------------|------------------------------|
| Amount of endorsed commercial acceptance | 169,781,490.63 | 103,625,409.79 |
| Including: Payment for goods | 169,781,490.63 | 103,625,409.79 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Others

1. Assets with title or use right restrictions

| Items | Closing carrying amount | Reasons for restrictions |
|------------------------------|-------------------------|--------------------------|
| Cash and bank balances | 70,221,892.81 | Pledge deposit |
| Other cash and bank balances | 14,808,199.09 | |
| Total | 85,030,091.90 | |

2. Monetary items in foreign currencies

| Items | Closing balance in foreign currencies | Exchange rate | RMB equivalent |
|---|---------------------------------------|---------------|----------------------|
| Cash and bank balances | | | |
| Including: USD | 2,401,660.01 | 6.8632 | 16,483,072.98 |
| Notes receivables and accounts receivable | | | |
| Including: USD | 485,276.50 | 6.8632 | 3,330,549.67 |
| Notes receivables and accounts receivable | | | |
| Including: USD | 4,260,615.79 | 6.8632 | 29,241,458.29 |
| Long-term borrowings | | | |
| Including: EUR | 889,607.87 | 7.8473 | 6,981,019.84 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Others (Continued)

3. Government grants

(1) Details

- 1) Government grants related to assets

| Items | Opening balance of deferred income | Increase | Amortization | Closing balance of deferred income | Amortization presented under | Remarks |
|--|------------------------------------|-------------------|--------------|------------------------------------|------------------------------|-----------------------------------|
| Demolition compensation amortisation | 62,824,691.48 | | 3,482,131.32 | 59,342,560.16 | Other income | |
| Production line intelligent transformation | | 906,000.00 | | 906,000.00 | | Not yet meet the usable condition |
| Subtotal | 62,824,691.48 | 906,000.00 | 3,482,131.32 | 60,248,560.16 | | |

- 2) Government grants related to income and used to compensate future relevant costs, expenses or losses

| Items | Opening balance of deferred income | Increase | Amounts carried forward | Closing balance of deferred income | Amounts carried forward presented under | Remarks |
|---|------------------------------------|----------|-------------------------|------------------------------------|---|------------------|
| Nuclear grade special cable development and application subsidies | 400,000.00 | | | 400,000.00 | | Not yet accepted |
| Subtotal | 400,000.00 | | | 400,000.00 | | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Others (Continued)

3. Government grants (Continued)

(1) Details

- 3) Government grants related to income and used to compensate incurred relevant costs, expenses or losses

| Items | Amounts | Presented under | Remarks |
|--|--------------|-----------------|--|
| Special fund for intellectual property funds | 17,300.00 | Other income | |
| Export credit insurance subsidy | 22,000.00 | Other income | |
| Property insurance subsidy | 31,800.00 | Other income | |
| Patent subsidy | 7,840.00 | Other income | |
| Chengdu High-tech Industrial Development Zone Science and Technology and New Economic Development Bureau | 200,000.00 | Other income | According to the "Chengdu Fourth Batch of Science and Technology Projects in 2018" (Chengke (2018) No. 26), the company received relevant government subsidies from the Science and Technology and New Economic Development Bureau of Chengdu High-tech Industrial Development Zone. |
| Technology Center Special Grant for Intellectual Property | 6,000.00 | Other income | |
| Post-employed staff | 161,328.68 | Other income | According to the Notice of the Chengdu Employment Management Service on the Relevant Issues Concerning the Use of the Unemployment Insurance Fund for the Unemployment Insurance Fund of the City (Achievement [2017] No. 66), the company received relevant government subsidies in 2018. |
| Chengdu Shuangliu District Science and Technology and New Economic Development Bureau Applied Technology Research and Development Fund Project | 16,900.00 | Other income | |
| Qualification certification special fund support | 33,600.00 | Other income | |
| High-tech Development Zone Finance and Finance Bureau encourages the use of science and technology insurance subsidies | 16,500.00 | Other income | |
| Third generations handling fees | 60,428.01 | Other income | |
| Special Fund for Economic Operation and Safety Production Supervision Bureau of Chengdu High-tech Industrial Development Zone | 129,800.00 | Other income | |
| hardship enterprise subsidy | 3,470,000.00 | Other income | According to the Notice of the Ministry of Finance on the Special Management Grant Fund for the Central Detachable Enterprises of the Central State-owned Capital Operating Budget of 2018 (Treasury [2018] No. 75), China Putian Information Industry Group Co., Ltd. has been on behalf of the Company on November 23, 2018. Received 3.47 million yuan from the special hardship enterprise. |
| Chengdu Finance Bureau 2017 two-in-one integration demonstration subsidy | 160,000.00 | Other income | Notice of the Chengdu Municipal Finance and Information Technology Commission of Chengdu Municipal Finance and Information Technology Committee on the Awards for the Pilot Units for the Integration of the Demonstration and Management System for the Integration of the Demonstration and Management System in 2017 (Chengcai Enterprise [2017] No. 106) The Company received the relevant government in 2018 Subsidy. |
| Subtotal | 4,333,496.69 | | |

- (2) The amount of government subsidies included in the current profit and loss for the period is RMB7,815,628.01.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

VI. CHANGE OF CONSOLIDATION SCOPE

There are no changes in the scope of consolidation in this period.

VII. RIGHTS IN OTHER ENTITIES

(I) Interests in important subsidiaries

1. Composition of important subsidiaries

(1) General information

| Subsidiaries | Main operating place | Place of registration | Business nature | Holding proportion (%) | | Acquisition method |
|--|----------------------|-----------------------|-----------------|------------------------|----------|---|
| | | | | Direct | Indirect | |
| Chengdu Zhongling Radio Communications Co., Ltd. | Chengdu City | Chengdu City | Manufacture | 100.00 | | Merger of enterprises under different control |
| Chengdu PUTIAN New Material Co., Ltd. | Chengdu City | Chengdu City | Manufacture | 100.00 | | Merger of enterprises under different control |
| Chengdu SEI Optical Fiber Co., Ltd. | Chengdu City | Chengdu City | Manufacture | 60.00 | | Merger of enterprises under different control |
| Chongqing Putaifeng Aluminium Co., Ltd. | Chongqing City | Chongqing City | Manufacture | 40.00 | | Investment |

(2) The basis for holding half or less of the voting rights but still controlling the investee, and holding more than half of the voting rights but not controlling the investee

The company holds 40% shares of Chongqing Putaifeng Aluminium Co., Ltd., and holds majority voting rights in its board of directors. It can enjoy variable returns through control over its financial and operating decisions. Therefore, the company will include Chongqing Putaifeng Aluminium Co., Ltd. in the consolidated financial statements.

2. Important non-wholly owned subsidiaries

(1) Details

| Subsidiaries | Holding proportion of non-controlling interest | Profit or loss attributable to non-controlling interest | Dividend declared to non-controlling interest | Closing balance of non-controlling interest |
|---|--|---|---|---|
| Chengdu SEI Optical Fiber Co., Ltd. | 40.00 | 35,195,593.61 | 20,000,000.00 | 136,370,117.47 |
| Chongqing Putaifeng Aluminium Co., Ltd. | 60.00 | -2,227,702.03 | | 105,872.90 |

(2) Other information

The proportion of minority shareholders in Chongqing Putaifeng Aluminium Co., Ltd. is 60%, and that of minority shareholders in the board of directors is 40%.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

VII. RIGHTS IN OTHER ENTITIES (CONTINUED)

(I) Interests in important subsidiaries (Continued)

3. Key financial information of important non-wholly owned subsidiaries

(1) Assets and liabilities

Currency unit: 10,000 yuan

| Subsidiaries | Current assets | Non-current assets | Closing balance | | | Total liabilities |
|---|------------------|--------------------|------------------|---------------------|-------------------------|-------------------|
| | | | Total assets | Current liabilities | Non-current liabilities | |
| Chengdu SEI Optical Fiber Co., Ltd. | 33,575.86 | 5,561.05 | 39,136.91 | 4,953.78 | 90.60 | 5,044.38 |
| Chongqing Putaifeng Aluminium Co., Ltd. | 25.30 | | 25.30 | 7.65 | | 7.65 |

| Subsidiaries | Current assets | Non-current assets | Opening balance | | | Total liabilities |
|---|----------------|--------------------|-----------------|---------------------|-------------------------|-------------------|
| | | | Total assets | Current liabilities | Non-current liabilities | |
| Chengdu SEI Optical Fiber Co., Ltd. | 32,073.32 | 5,739.25 | 37,812.57 | 7,518.94 | | 7,518.94 |
| Chongqing Putaifeng Aluminium Co., Ltd. | 429.65 | 698.33 | 1,127.98 | 674.05 | 65.00 | 739.05 |

(2) Profit & loss and cash flow

Currency unit: 10,000 yuan

| Subsidiaries | Operating revenue | Net profit | Current period cumulative | |
|---|-------------------|-----------------|----------------------------|--------------------------------------|
| | | | Total comprehensive income | Cash flows from operating activities |
| Chengdu SEI Optical Fiber Co., Ltd. | 33,365.57 | 8,798.90 | 8,798.90 | 606.00 |
| Chongqing Putaifeng Aluminium Co., Ltd. | 38.66 | -371.28 | -371.28 | 6.28 |

| Subsidiaries | Preceding period comparative | | | |
|---|------------------------------|------------|----------------------------|--------------------------------------|
| | Operating revenue | Net profit | Total comprehensive income | Cash flows from operating activities |
| Chengdu SEI Optical Fiber Co., Ltd. | 36,891.80 | 10,818.80 | 10,818.80 | 13,232.49 |
| Chongqing Putaifeng Aluminium Co., Ltd. | 9,178.37 | -1,279.24 | -1,279.24 | -257.87 |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

VII. RIGHTS IN OTHER ENTITIES (CONTINUED)

(II) Changes in the share of the owner's shares in the subsidiary but still control the transactions from the subsidiary

1. Description of changes in the share of the owner's shares in the subsidiary

| Subsidiaries | Date of change | Holding proportion before change | Holding proportion after change |
|--|----------------|----------------------------------|---------------------------------|
| Chengdu Zhongling Radio Communications Co., Ltd. | 2018/3/31 | 66.67% | 100.00% |
| Chengdu PUTIAN New Material Co., Ltd. | 2018/3/31 | 96.67% | 100.00% |

2. The impact on minority shareholders' rights and the owners right of the parent company by the transaction

| Items | Chengdu PUTIAN New Material Co., Ltd. | Chengdu Zhongling Radio Communications Co., Ltd. |
|---|---------------------------------------|--|
| Acquisition costs | 19,500,000.00 | |
| Cash | 19,500,000.00 | |
| Total acquisition costs | 19,500,000.00 | |
| Less: Share in subsidiaries' net assets based on acquired/disposed net assets proportion | 5,466,886.60 | 1,392,455.65 |
| Balance | 12,640,657.75 | |
| Including: Capital reserve adjusted | 12,640,657.75 | |

Note: The company acquired 33.33% equity of Chengdu Putian New Material Co., Ltd., a subsidiary of Chengdu Putian New Material Co., Ltd. held by minority shareholders for RMB19.50. As Chengdu Putian New Material Co., Ltd. holds 10.00% equity of Chengdu Zhongling Wireless Communication Cable Co., Ltd., the company also completed the acquisition of 3.33% equity of Chengdu Zhongling Wireless Communication Cable Co., Limited.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

VII. RIGHTS IN OTHER ENTITIES (CONTINUED)

(III) Equity in joint venture or associates

1. Important joint ventures

| Joint ventures or associates | Main operating place | Place of registration | Business nature | Holding proportion (%) | | Accounting treatment |
|---|----------------------|-----------------------|-----------------|------------------------|----------|----------------------|
| | | | | Direct | Indirect | |
| Chengdu Yuexin Telecommunications Materials Co., Ltd. | Chengdu City | Chengdu City | Manufacture | 35.00 | | Equity method |
| Chengdu Bada Connector Co., Ltd. | Chengdu City | Chengdu City | Manufacture | 49.00 | | Equity method |
| Putian Fasten Cable Telecommunication Co., Ltd. | Jiangyin City | Jiangyin City | Manufacture | 22.50 | | Equity method |

2. Key financial information of important associates

| Items | Closing balance/Current period | | |
|---|---|----------------------------------|---|
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | Chengdu Bada Connector Co., Ltd. | Putian Fasten Cable Telecommunication Co., Ltd. |
| Current assets | 4,805,921.29 | 64,429,747.92 | 1,239,576,852.53 |
| Non-current assets | 2,418,671.24 | 4,818,528.49 | 255,175,462.18 |
| Total assets | 7,224,592.53 | 69,248,276.41 | 1,494,752,314.71 |
| Current liabilities | 5,714,703.60 | 59,493,589.27 | 741,671,724.73 |
| Non-current liabilities | | | 203,451,037.04 |
| Total liabilities | 5,714,703.60 | 59,493,589.27 | 945,122,761.77 |
| Non-controlling interest | | 96,770.51 | |
| Equity attributable to owners of parent company | 1,509,888.93 | 9,657,916.63 | 549,629,552.94 |
| Proportionate share in net assets | 528,461.12 | 4,732,379.15 | 123,666,649.41 |
| Adjustments | | | |
| Goodwill | | | 3,190,746.07 |
| Others | 109,955.56 | -0.03 | 231,757.60 |
| Carrying amount of investments in associates | 638,416.68 | 4,732,379.12 | 127,089,153.08 |
| Fair value of equity investments in associates in association with quoted price | | | |
| Operating revenue | 8,646,287.41 | 164,271,429.83 | 812,327,865.99 |
| Net profit | -2,421,794.13 | -775,737.64 | 4,560,978.83 |
| Net profit of discontinued operations | | | |
| Other comprehensive income | | | |
| Total comprehensive income | -2,421,794.13 | -775,737.64 | 4,560,978.83 |
| Dividend from joint ventures received in current period | | | |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

VII. RIGHTS IN OTHER ENTITIES (CONTINUED)

(III) Equity in joint venture or associates (Continued)

2. Key financial information of important associates (Continued)

| Items | Opening balance/Prior period | | |
|--|---|-------------------------------------|---|
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | Chengdu Bada Connector Co., Ltd. | Putian Fasten Cable Telecommunication Co., Ltd. |
| Current assets | 10,128,114.53 | 78,690,741.37 | 964,393,152.63 |
| Non-current assets | 2,810,859.13 | 2,922,962.69 | 279,077,517.99 |
| Total assets | 12,938,973.66 | 81,613,704.06 | 1,243,470,670.62 |
| Current liabilities | 9,007,290.60 | 71,069,892.87 | 654,026,798.48 |
| Non-current liabilities | | | 44,375,298.03 |
| Total liabilities | 9,007,290.60 | 71,069,892.87 | 698,402,096.51 |
| Non-controlling interest | | 110,156.92 | |
| Equity attributable to owners of parent company | 3,931,683.06 | 10,433,654.27 | 545,068,574.11 |
| Proportionate share in net assets | 1,376,089.07 | 5,112,490.59 | 122,640,429.17 |
| Adjustments | | | |
| Goodwill | | | 3,190,746.07 |
| Others | 109,955.56 | -0.03 | 231,757.60 |
| Carrying amount of investments in associates | 1,486,044.63 | 5,112,490.56 | 126,062,932.84 |
| Fair value of equity investments in associates in association with quoted price | | | |
| Operating revenue | 23,052,966.01 | 131,689,472.37 | 1,013,283,014.35 |
| Net profit | 2,039.28 | 700,949.01 | 37,062,989.31 |
| Net profit of discontinued operations | | | |
| Other comprehensive income | | | |
| Total comprehensive income | 2,039.28 | 700,949.01 | 37,062,989.31 |
| Dividend from joint ventures received in current period | | | |

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Company's financial performance. Based on such objectives, the Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company has exposure to the following risks from its use of financial instruments, which mainly include: credit risk, liquidity risk, and market risk. Management have deliberated and approved policies concerning such risks, and details are:

(I) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

1. The Company's credit risk is primarily attributable to bank balances and receivables. In order to control such risks, the Company has taken the following measures:

- (1) *Bank balances*

The Company deposits its bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.

- (2) *Receivables*

The Company performs credit assessment on customers who uses credit settlement on a regular/continuous basis. The Company selects credible and well-reputed customers based on credit assessment result, and conducts ongoing monitoring on receivables, to avoid significant risks in bad debts.

As the Company only conducts business with credible and well-reputed third parties, normally, does not obtain collateral from customers. Normally, the Group does not obtain collateral from customers. The Company manages credit risk aggregated by customers. As of December 31, 2018, the Company has certain concentration of credit risk, and 43.93% (December 31, 2017: 47.12%) of the total accounts receivable was due from the five largest customers of the Company. The Company held no collateral or other credit enhancement on balance of receivables. The maximum amount of exposure to credit risk of the Company is the carrying amount of each financial asset on the balance sheet.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (Continued)

2. Reconciliation of opening balance and closing balance of provision for impairment of financial instruments (Continued)

| Items | January 1, 2018 | Provision made | Increase | | Decrease | | Closing balance |
|---|-----------------|----------------|---------------------|--------|--------------------|-----------------------|-----------------|
| | | | Provision collected | Others | Provision reversed | Provision written off | |
| Estimated credit loss within following 12 months (phase I, financial instruments with no significant increase in credit risk since initial recognition) | | | | | | | |
| Other receivables | 82,361.38 | -44,756.78 | | | | | 37,604.60 |
| Subtotal | 82,361.38 | -44,756.78 | | | | | 37,604.60 |
| Estimated credit loss during the whole lifetime (phase III, credit impaired on financial instruments neither purchased nor originated) | | | | | | | |
| Other receivables | 28,497,527.07 | 201,254.55 | | | | | 28,698,781.62 |
| Subtotal | 28,497,527.07 | 201,254.55 | | | | | 28,698,781.62 |
| Estimated credit loss during the whole lifetime (items with provision for impairment made in accordance with estimated credit loss over the lifetime) | | | | | | | |
| Rent receivable | 16,709.69 | 4,351.66 | | | | | 21,061.35 |
| Notes receivable and accounts receivable | 59,326,900.46 | 6,019,125.15 | | | | | 65,346,025.61 |
| Subtotal | 59,343,610.15 | 6,023,476.81 | | | | | 65,367,086.96 |

For details of the inputs, assumptions and valuation techniques used in the impairment of financial instruments, please refer to the notes receivables and accounts receivable and other receivables in the notes to the consolidated financial statements in the notes to the financial statements.

(II) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in selling financial assets at fair value on a timely basis, or failure in collecting liabilities from counterparts of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

In order to control such risk, the Company utilized financing tools such as notes settlement, bank borrowings, etc. and adopts long and short financing methods to optimizing financing structures, and finally maintains a balance between financing sustainability and flexibility. The Company has obtained credit limit from several commercial banks to meet working capital requirements and expenditures.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(II) Liquidity risk (Continued)

Financial instruments classified based on remaining time period till maturity

| Items | Carrying amount | Contract amount not yet discounted | Closing balance | | |
|------------------------------------|-----------------|------------------------------------|-----------------|------------|--------------|
| | | | Within one year | 1-3 years | Over 3 years |
| Notes payable and accounts payable | 63,251,671.34 | 63,251,671.34 | 63,251,671.34 | | |
| Other payables | 38,411,274.78 | 38,411,274.78 | 38,411,274.78 | | |
| Long-term borrowings | 6,981,019.84 | 6,981,019.84 | 470,727.67 | 941,455.34 | 5,568,836.83 |
| Subtotal | 108,643,965.96 | 108,643,965.96 | 102,133,673.79 | 941,455.34 | 5,568,836.83 |

| Items | Carrying amount | Contract amount not yet discounted | Opening balance | | |
|------------------------------------|-----------------|------------------------------------|-----------------|------------|--------------|
| | | | Within one year | 1-3 years | Over 3 years |
| Notes payable and accounts payable | 103,292,947.56 | 103,292,947.56 | 103,292,947.56 | | |
| Other payables | 40,501,877.44 | 40,501,877.44 | 40,501,877.44 | | |
| Long-term borrowings | 7,409,015.78 | 7,409,015.78 | 468,028.30 | 936,056.60 | 6,004,930.88 |
| Subtotal | 151,203,840.78 | 151,203,840.78 | 144,262,853.30 | 936,056.60 | 6,004,930.88 |

(III) Market risk

Market risk is the risk that the Company may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market price. Market risk mainly includes interest risk and Foreign currency risk.

1. Interest risk

Interest risk is the risk that an enterprise may encounter fluctuation in fair value of financial instruments or future cash flows due to changes in market interest. The Company's interest risk relates mainly to borrowings with floating interest rate.

As of 31 December 2018, balance of borrowings with interest accrued at floating interest rate totaled 0.00 yuan (31 December 2017: 0.00 yuan). If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's gross profit and equity will not be significantly affected.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk (Continued)

2. Foreign currency risk

Foreign currency risk is the risk arising from changes in fair value or future cash flows of financial instrument resulted from changes in exchange rate. The Company's foreign currency risk relates mainly to foreign currency monetary assets and liabilities. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may trade foreign currency at market exchange rate when necessary, in order to maintain the net risk exposure within an acceptable level.

Please refer to notes to foreign currency monetary items for details in foreign currency financial assets and liabilities at the end of the period.

IX. DISCLOSURE OF FAIR VALUE

(I) Details of the final fair value of assets and liabilities measured at fair value

| Items | Fair value as of the balance sheet date | | | Total |
|--|---|---------|---------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Recurring fair value measurement Financial assets classified as at fair value through profit or loss | 4,977,441.00 | | | 4,977,441.00 |
| Total assets at recurring fair value measurement | 4,977,441.00 | | | 4,977,441.00 |

(II) The basis for determining the market value of fair value measurement items at the first level of sustainability and non-sustainability

The quotation of the same assets or liabilities in an active market (unadjusted).

(III) Fair value of financial assets and liabilities not measured at fair value

Financial assets and liabilities not measured at fair value mainly include monetary funds, accounts receivable, short-term loans and accounts payable. The fair value of each project is close to the book value.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Related party situation

1. The parent company of the company

(1) *The parent company of the company*

| Parent company | Place of registration | Business nature | Registered capital (rmb'0000) | Holding proportion over the Company (%) | Voting right proportion over the Company (%) |
|-------------------------------|-----------------------|---|-------------------------------|---|--|
| China Potevio Company Limited | Beijing | Manufacture of telecommunication products | 190,305.00 | 60.00 | 60.00 |

(2) *The ultimate controlling party of the company is China Putian Information Industry Group Co., Ltd.*

2. For details of the subsidiaries of the Company, please refer to the notes on the interests of other entities in the notes of the financial statements.

3. The company's joint ventures and associates

For the important joint ventures or associates of the Company, please refer to the notes on the interests of other entities in the notes to the financial statements.

4. Other related parties of the company

(1) *Other related parties of the company*

| Related parties | Relationships with the Company |
|--|---|
| Nanjing Putian Telege Intelligent Building Ltd. | Controlled by the same parent company |
| Putian International Trade Co. Ltd. | Controlled by the same parent company |
| Chengdu Branch of China Potevio Company Limited | Controlled by the same parent company |
| Nanjing PUTIAN Telecommunications Company Limited | Controlled by the same parent company |
| Sumitomo Electric Industries Ltd. | Shareholder holding more than 5% of the subsidiary's |
| Sumitomo Electric Asia Ltd | Entity controlled by ultimate controller of shareholder holding more than 5% of the subsidiary shares |
| Chengdu Huangshishuangfeng Cable Co., Ltd. | Shareholder holding more than 5% of the subsidiary's |
| Chongqing Taishan Cable Co., Ltd. | Shareholder holding more than 5% of the subsidiary's |
| Hangzhou Honyar Electrical Co., Ltd. | Controlled by the same parent company |
| Hangzhou Yishi lighting engineering design co. Ltd. | Controlled by the same parent company |
| Hangzhou Honyar Cable Co., Ltd. | Controlled by the same parent company |
| Hangzhou Honyar Trade Co., Ltd. | Controlled by the same parent company |
| Putian Intelligent Lighting Research Institute Co., Ltd. | Controlled by the same parent company |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions

1. Related transactions for the purchase and sale of goods, provide and acceptance of services

(1) Details

1) Related transactions in purchasing goods and receiving labor services

| Related parties | Content of transaction | Current period cumulative | Preceding period comparative |
|---|---|---------------------------|------------------------------|
| Chengdu Bada Connector Co., Ltd. | Purchase of goods and receiving of services | 139,954,368.96 | 119,935,239.74 |
| Chengdu Yuexin Telecommunications Materials Co., Ltd. | Purchase of goods | 7,000,268.54 | 20,988,172.03 |
| China Potevio Company Limited | Purchase of goods and receiving of services | 155,672.64 | 33,281.13 |
| Sumitomo Electric Industries Ltd. | Purchase of goods | 1,951,330.48 | 20,095,585.02 |
| Sumitomo Electric Asia Ltd. | Purchase of goods | 133,669,024.79 | 130,717,076.34 |
| Sumitomo Electric Industries Ltd. | receiving of services | 460,193.67 | 467,283.85 |
| Chengdu Huangshishuangfeng Cable Co., Ltd. | Purchase of goods | | 556,840.28 |
| Chongqing Taishan Cable Co., Ltd. | receiving of services | 203,136.79 | |
| Hangzhou Honyar Electrical Co., Ltd. | Purchase of goods | 4,808,906.33 | 34,573.06 |
| Hangzhou Yishi lighting engineering design co. Ltd. | Purchase of goods | | 730,604.94 |
| Hangzhou Honyar Cable Co., Ltd. | Purchase of goods | | 832,905.48 |
| Hangzhou Honyar Trade Co., Ltd. | Purchase of goods | 38,459,601.31 | 23,498,363.25 |
| Putian Fasten Cable Telecommunication Co., Ltd. | Purchase of goods | 11,598.40 | |

2) Related transactions for the sale of goods and provide labor services

| Related parties | Content of transaction | Current period cumulative | Preceding period comparative |
|---|-------------------------------|---------------------------|------------------------------|
| China Potevio Company Limited | Sales feeder | 3,890,818.79 | 62,060,953.00 |
| Chengdu Bada Connector Co., Ltd. | Sales of electrical equipment | 2,233,671.33 | 688,448.05 |
| Chongqing Taishan Cable Co., Ltd. | Selling aluminum rod | 34,584.44 | 43,694,304.32 |
| Chengdu Yuexin Telecommunications Materials Co., Ltd. | Selling steel strip | | 424,011.85 |
| Putian Fasten Cable Telecommunication Co., Ltd. | Sales of hydropower | 2,180,059.95 | 3,942,179.82 |

2. Related party lease

| Lessees | Types of asset leased | Lease income for current period | Lease income for the preceding period |
|---|-----------------------|---------------------------------|---------------------------------------|
| Chengdu Yuexin Telecommunications Materials Co., Ltd. | Plant | 644,320.40 | 652,416.58 |
| Putian Fasten Cable Telecommunication Co., Ltd. | Plant | 3,678,672.00 | 3,424,800.00 |
| Chengdu Bada Connector Co., Ltd. | Plant | 250,660.69 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions (Continued)

3. Related party guarantee

The company as the guarantor

| Guarantors | Amount guaranteed | Commencement date | Maturity date | Whether the guarantee is mature |
|----------------------------------|-------------------|-------------------|---------------|---------------------------------|
| China PUTIAN Corporation Limited | 6,981,019.84 | 1997/2/21 | 2033/2/21 | No |

4. Related party lending

| Related parties | Amount | Commencement date | Maturity date | Remarks |
|---|---------------|-------------------|---------------|--|
| Call loans to related parties Chengdu Bada Connector Co., Ltd. | 10,000,000.00 | 2018/1/1 | 2018/1/31 | Interest income for the current period totaled RMB55,031.44. |

5. Transfer of related party assets

| Related parties | Content of related party transactions | Current period cumulative | Preceding period comparative |
|--------------------------------------|---------------------------------------|---------------------------|------------------------------|
| Chengdu Bada Connector Co., Ltd. | Disposal of fixed assets | 1,640,417.79 | |
| Hangzhou Honyar Electrical Co., Ltd. | Purchase of intangible assets | 3,245,283.03 | |

6. Key management remuneration

| Items | Current period cumulative | Preceding period comparative |
|------------------------------------|---------------------------|------------------------------|
| Director's emoluments | 150,000.12 | 150,000.12 |
| Wage, bonus, allowance and subsidy | 1,822,249.02 | 1,165,853.66 |
| Payment of pension plan | 236,860.14 | 202,803.65 |
| Housing provident fund | 74,954.52 | 62,303.00 |
| Other interest | 107,328.54 | 93,611.50 |
| Total | 2,391,392.34 | 1,674,571.93 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions (Continued)

7. Directors and supervisors' remuneration

| Items | Director's emoluments | Wage, bonus, allowance and subsidy | Current period cumulative | | | | Total |
|---|--------------------------|---|-------------------------------|------------------------------|-------------------|---------------------|------------|
| | | | Payment of pension plan | Housing provident fund | Other interest | Physical welfare | |
| Executive directors: | | | | | | | |
| Wu Changlin (Note V) | | | | | | | |
| Zhang Xiaocheng (Note V) | | | | | | | |
| Hu Jiangbing (Note VI) | | 13,817.00 | 2,824.20 | 1,694.52 | 1,233.52 | | 19,569.24 |
| Han Shu | | | | | | | |
| Wang Micheng | | | | | | | |
| Xu Liying | | | | | | | |
| Liu Yun (Note I) | | | | | | | |
| Fan Xu (Note VI) | | | | | | | |
| Independent non-executive directors: | | | | | | | |
| Choy Sze Chung, Jojo (Note II) | 8,333.34 | | | | | | 8,333.34 |
| Mao Yaping (Note III) | 37,500.03 | | | | | | 37,500.03 |
| Xiao Xiaozhou | 50,000.04 | | | | | | 50,000.04 |
| Lin Zulun (Note IV) | 45,833.37 | | | | | | 45,833.37 |
| Feng Gang (Note IV) | 8,333.34 | | | | | | 8,333.34 |
| Supervisors: | | | | | | | |
| Zheng Zhili | | | | | | | |
| Xiong Ting | | 336,133.50 | 40,830.24 | 9,600.00 | 17,031.37 | | 403,595.11 |
| Liu Jun | | 151,016.73 | 20,257.80 | 7,896.00 | 9,294.99 | | 188,465.52 |
| Total | 150,000.12 | 500,967.23 | 63,912.24 | 19,190.52 | 27,559.88 | | 761,629.99 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions (Continued)

7. Directors and supervisors' remuneration (Continued)

| Items | Director's emoluments | Wage, bonus, allowance and subsidy | Preceding period comparative | | | | Total |
|---|--------------------------|---|------------------------------|------------------------------|-------------------|---------------------|-------------------|
| | | | Payment of pension plan | Housing provident fund | Other interest | Physical welfare | |
| Executive directors: | | | | | | | |
| Zhang Xiaocheng (Note V) | | | | | | | |
| Wang Micheng | | | | | | | |
| Wang Feng (Note I) | | | | | | | |
| Liu Yun (Note I) | | | | | | | |
| Han Shu | | | | | | | |
| Xu Liying | | | | | | | |
| Fan Xu (Note VI) | | | | | | | |
| Independent non-executive directors: | | | | | | | |
| Choy Sze Chung, Jojo (Note II) | 50,000.04 | | | | | | 50,000.04 |
| Xiao Xiaozhou | 50,000.04 | | | | | | 50,000.04 |
| Lin Zulun (Note IV) | 50,000.04 | | | | | | 50,000.04 |
| Supervisors: | | | | | | | |
| Zheng Zhili | | | | | | | |
| Xiong Ting | | 233,825.60 | 33,032.64 | 9,600.00 | 14,489.49 | | 290,947.73 |
| Dai Xiaoyi | | 169,025.75 | 24,183.96 | 8,622.00 | 10,659.64 | | 212,491.35 |
| Liu Jun | | 106,621.50 | 17,229.96 | 6,726.00 | 7,800.81 | | 138,378.27 |
| Total | 150,000.12 | 509,472.85 | 74,446.56 | 24,948.00 | 32,949.94 | | 791,817.47 |

Note 1: On January 13, 2017, Mr. Wang Feng resigned from executive director to invest more time in personal affairs, and appointed Ms. Liu Wei has been appointed as executive director.

Note 2: On January 13, 2018, Mr. Choy Sze Chung, Jojo resigned as an independent non-executive director, chairman of the audit committee, chairman of the nomination committee, member of the strategic development committee and member of the remuneration and appraisal committee in order to give more time on personal career development.

Note 3: On 13 April 2018, the Board appointed Ms. Mao Yaping as an independent non-executive Director, serving as the Chairman of the Audit Committee of the Company and a member of the Nomination Committee, the Remuneration and Appraisal Committee and the Strategic Development Committee.

Note 4: On November 13, 2018, Mr. Lin Zulun no longer served as a member of the Remuneration and Appraisal Committee, the Audit Committee, the Strategic Development Committee, and the Chairman of the Nomination Committee because he needed more time to handle personal affairs. At the same time, Mr. Feng Gang was appointed as an independent non-executive director of the Company.

Note 5: On November 22, 2018, Mr. Zhang Xiaocheng resigned as executive director, chairman of the board of directors, legal representative of the company and chairman of the strategic development committee of the company due to his wish to spend more time on his personal affairs. At the same time, Mr. Wu Changlin was appointed as an executive director and chairman of the company and a legal representative of the company.

Note 6: On November 22, 2018, Mr. Fan Xu resigned as an executive director and a member of the nomination committee of the Company. At the same time, Mr. Hu Jiangbing was appointed as an executive director and vice chairman of the company.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transactions (Continued)

8. Top five employees with the highest salaries

The top five employees with the highest salary this year include 0 (0 person in year 2017) directors whose remuneration details can refer to the Note 10(II),No.7 in the financial statements, and the details of the remaining 5 (5 person in year 2017) non-directors employees' compensation are as follows:

| Items | Current period cumulative | Preceding period comparative |
|------------------------------------|------------------------------|---------------------------------|
| Wage, bonus, allowance and subsidy | 1,362,474.18 | 1,121,412.02 |
| Payment of pension plan | 179,801.58 | 166,945.14 |
| Housing provident fund | 55,764.00 | 49,419.00 |
| Other interest | 82,101.21 | 78,078.08 |
| Total | 1,680,140.97 | 1,415,854.24 |

The salary ranges for 5 non-directors are as follows:

| Items | Number of individuals (2018) | Number of individuals (2017) |
|------------------------|------------------------------------|------------------------------------|
| HK\$ nil–HK\$1 million | 5 | 5 |

9. The company purchases goods from Hangzhou Hongyan Electric Co., Ltd., Sumitomo Electric Industries Co., Ltd. and Sumitomo Electric Asia Ltd.; the company sells goods to China Putian Information Industry Co., Ltd. and Chongqing Taishan Cable Co., Ltd.; The above transactions above were defined as continuous related transaction in Chapter 14A of the listing rules, this kind of have been disclosed in the section on continuing connected transactions in the report of the Board of Directors required by Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Related party receivables and payables

1. Amount due from related parties

| Items | Related parties | Closing balance | | Opening balance | |
|--|--|----------------------|-------------------------|-------------------|-------------------------|
| | | Book balance | Provision for bad debts | Book balance | Provision for bad debts |
| Notes receivable and accounts receivable | Nanjing Putian Telege Intelligent Building Ltd. | 93,192.96 | 93,192.96 | 93,192.96 | 93,192.96 |
| | China Potevio Company Limited | 8,725,199.62 | 43,626.00 | 42,233,063.23 | |
| | Chengdu Branch of China Potevio Company Limited | 304,891.23 | 304,891.23 | 304,891.23 | 304,891.23 |
| | Chengdu Bada Connector Co., Ltd. | 278,603.82 | 1,393.02 | 88,912.03 | |
| | Chongqing Taishan Cable Co., Ltd. | | | 249,178.73 | |
| | Chengdu Huangshishuangfeng Cable Co., Ltd. | | | 3,416,171.88 | |
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | 980,123.69 | 4,900.62 | | |
| | Subtotal | | 10,382,011.32 | 448,003.83 | 46,385,410.06 |
| Advances paid | Sumitomo Electric Asia Ltd. | 2,142,188.56 | | 718,900.36 | |
| | China Potevio Company Limited | | | 78,300.00 | |
| | Hangzhou Honyar Electrical Co., Ltd. | | | 21,293,666.17 | |
| | Hangzhou Honyar Trade Co., Ltd. | 9,009,887.98 | | 4,698,187.24 | |
| Subtotal | | 11,152,076.54 | | 26,789,053.77 | |
| Other receivables | China Potevio Company Limited | 1,680,942.76 | 8,404.71 | 2,452,740.84 | |
| | Chengdu Bada Connector Co., Ltd. | 1,336,288.87 | 6,681.45 | 10,212,371.31 | |
| | Chongqing Taishan Cable Co., Ltd. | | | 496,822.86 | |
| | Chengdu Huangshishuangfeng Cable Co., Ltd. | 236,822.86 | 1,184.11 | 496,822.86 | |
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | 93,260.79 | 466.30 | 4,568.95 | |
| | Putian Intelligent Lighting Research Institute Co., Ltd. | 100,000.00 | 500.00 | 5,564,655.38 | 556,465.54 |
| | Putian Fasten Cable Telecommunication Co., Ltd. | 671,778.78 | 3,358.90 | 1,855,990.64 | |
| | China PUTIAN Corporation Limited | 3,470,000.00 | 17,350.00 | | |
| Subtotal | | 7,589,094.06 | 37,945.47 | 21,083,972.84 | 556,465.54 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Related party receivables and payables (Continued)

2. Payable to related parties

| Items | Related parties | Closing balance | Opening balance |
|---------------------------------------|--|----------------------|-----------------|
| Notes payable and accounts receivable | Chengdu Bada Connector Co., Ltd. | 4,510,433.34 | 23,236,034.91 |
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | | 3,134,113.95 |
| | Sumitomo Electric Asia Ltd. | 29,241,458.29 | 27,877,989.45 |
| | Sumitomo Electric Industries Ltd. | | 393,228.16 |
| | Hangzhou Honyar Cable Co., Ltd. | 106,893.69 | 106,893.69 |
| | Hangzhou Honyar Electrical Co., Ltd. | 289,908.93 | 122,822.80 |
| | Hangzhou Honyar Trade Co., Ltd. | 2,175,020.99 | 3,531,999.14 |
| | Chengdu Huangshishuangfeng Cable Co., Ltd. | 4,690,289.26 | 8,121,852.90 |
| Subtotal | | 41,014,004.50 | 66,524,935.00 |
| Advances received | Sumitomo Electric Industries Ltd. | 139,139.59 | 211,887.01 |
| | Chengdu Yuexin Telecommunications Materials Co., Ltd. | 100,000.00 | 100,000.00 |
| | Putian Intelligent Lighting Research Institute Co., Ltd. | | 100,000.00 |
| | Hangzhou Honyar Electrical Co., Ltd. | 1,727,168.49 | 61,917.96 |
| | Chengdu Bada Connector Co., Ltd. | 58,716.00 | |
| | China PUTIAN Corporation Limited | 18,660,000.00 | |
| Subtotal | | 20,685,024.08 | 473,804.97 |

XI. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

As of the balance sheet date, the company does not have any important commitments that need to be disclosed.

(II) Contingencies

As of the balance sheet date, the company has no contingent events that need to be disclosed.

XII. EVENTS AFTER THE BALANCE SHEET DATE

According to the Notice of Taxation of the Xi Peng Taxation Office of the Jiulongpo District Taxation Bureau of the State Administration of Taxation of the State Administration of Taxation (No. 125, Jiuxian Xisuotong [2019]), Chongqing Pu Taifeng Aluminum Co., Ltd., a subsidiary of the Company, was established in January 2019. On the 9th, the tax deregistration will be handled. According to the Chongqing Municipal Administration for Industry and Commerce, Jiulongpo District Bureau (No. 007618, No. 007618), Chongqing Pu Taifeng Aluminum Co., Ltd., a subsidiary of the Company, completed the industrial and commercial cancellation on January 22, 2019. Registration.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIII. OTHER IMPORTANT MATTERS

(I) Debt reshuffle

Company as the debtor

(1) Details

| Reform method | Debt Restructuring Profit | Increased equity resulting from converting debt into capital | Payables |
|-------------------------|---------------------------|--|----------|
| Assets to pay off debts | 650,000.00 | | |

(2) Chongqing Putaifeng Aluminum Co., Ltd., a subsidiary of the company in this period, has reached an agreement with Chongqing Dexun Property Management Co., Ltd. to exempt the liquidated damages for early termination of the housing lease contract.

(II) Segment information

1. Determine the factors considered in the reporting segment

The company determines the report segment based on internal organizational structure, management requirements, internal reporting system, etc., and determines the report segment based on the product segment.

2. Reporting segment financial information

| Items | Closing balance/current period cumulative | | |
|------------------------------|---|--------------------------------|------------------------------------|
| | Copper cable and related products | Optical communication products | Cable conduct and related products |
| Revenue from main operations | 266,383,330.52 | 332,165,124.34 | 355,247.58 |
| Cost of main operations | 269,982,610.34 | 203,330,511.66 | 661,511.62 |
| Assets impairment loss | 12,230,569.28 | 497,275.92 | 667,825.79 |
| Credit impairment loss | 7,476,659.90 | 83,595.88 | -1,444,894.53 |
| Total assets | 1,002,235,141.41 | 391,369,090.92 | 91,176,550.52 |
| Total liabilities | 137,111,724.30 | 50,443,797.21 | 72,880,576.14 |

| Items | Closing balance/current period cumulative | | |
|------------------------------|---|--------------------------|------------------|
| | Aluminum rod and related products | Inter-segment offsetting | Total |
| Revenue from main operations | 34,584.44 | 18,145,178.05 | 580,793,108.83 |
| Cost of main operations | 36,206.56 | 25,039,926.10 | 448,970,914.08 |
| Assets impairment loss | | -896,361.45 | 14,292,032.44 |
| Credit impairment loss | 1,184.11 | -63,429.22 | 6,179,974.58 |
| Total assets | 252,954.84 | 227,377,068.45 | 1,257,656,669.24 |
| Total liabilities | 76,500.00 | 47,393,645.73 | 213,118,951.92 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIII. OTHER IMPORTANT MATTERS (CONTINUED)

(II) Segment information (Continued)

2. Reporting segment financial information (Continued)

| Items | Opening balance/preceding period comparative | | |
|------------------------------|--|--------------------------------|------------------------------------|
| | Copper cable and related products | Optical communication products | Cable conduct and related products |
| Revenue from main operations | 287,231,983.21 | 366,375,903.97 | 635,208.71 |
| Cost of main operations | 273,495,945.02 | 215,468,318.24 | 413,838.44 |
| Assets impairment loss | 17,472,975.33 | | 2,539,901.12 |
| Total assets | 1,089,058,722.05 | 378,125,665.17 | 102,337,249.13 |
| Total liabilities | 180,852,150.80 | 75,189,355.51 | 85,360,084.30 |

| Items | Opening balance/preceding period comparative | | |
|------------------------------|--|--------------------------|------------------|
| | Aluminum rod and related products | Inter-segment offsetting | Total |
| Revenue from main operations | 90,911,776.51 | 16,092,611.33 | 729,062,261.07 |
| Cost of main operations | 93,474,749.79 | 26,188,508.15 | 556,664,343.34 |
| Assets impairment loss | 4,476,970.79 | 10,043,494.38 | 14,446,352.86 |
| Total assets | 11,279,798.01 | 206,855,663.89 | 1,373,945,770.47 |
| Total liabilities | 7,390,506.46 | 46,734,017.22 | 302,058,079.85 |

(III) Other financial information

| Items | Closing balance | | Opening balance | |
|---------------------------------------|-------------------------|-----------------------|------------------|----------------|
| | Consolidation | Parent company | Consolidation | Parent company |
| Net current assets | 656,734,343.93 | 356,912,715.71 | 668,755,327.27 | 395,404,231.21 |
| Total assets less current liabilities | 1,112,807,234.62 | 849,614,730.19 | 1,143,697,111.23 | 872,600,303.02 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

(I) Notes to items of parent company balance sheet

1. Notes receivable and accounts receivable

(1) Details

1) Details on categories

| Categories | Book balance | | Closing balance Provision for bad debts | | Carrying amount |
|---|-----------------------|---------------|--|--------------------------------|-----------------------|
| | Amount | % to total | Amount | Provision proportion (%) | |
| Receivables with provision made on an individual basis | 21,998,340.36 | 11.41 | 21,998,340.36 | 100.00 | |
| Including: Notes receivable | | | | | |
| Accounts receivable | 21,998,340.36 | 11.41 | 21,998,340.36 | 100.00 | |
| Receivables with provision made on a collective basis | 170,806,031.15 | 88.59 | 32,037,607.55 | 18.76 | 138,768,423.60 |
| Including: Notes receivable | 52,058,787.88 | 27.00 | 125,457.12 | 0.24 | 51,933,330.76 |
| Accounts receivable | 118,747,243.27 | 61.59 | 31,912,150.43 | 26.87 | 86,835,092.84 |
| Total | 192,804,371.51 | 100.00 | 54,035,947.91 | 28.03 | 138,768,423.60 |

| Categories | Book balance | | Opening balance Provision for bad debts | | Carrying amount |
|--|-----------------------|---------------|--|--------------------------------|----------------------|
| | Amount | % to total | Amount | Provision proportion (%) | |
| Receivables with provision made on a collective basis using portfolios with similar credit risk features | 98,818,797.55 | 83.69 | 21,397,354.59 | 21.65 | 77,421,442.96 |
| Receivable of individually insignificant amount but with provision made on an individual basis | 19,254,656.70 | 16.31 | 19,254,656.70 | 100.00 | |
| Total | 118,073,454.25 | 100.00 | 40,652,011.29 | 34.43 | 77,421,442.96 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

1. Notes receivable and accounts receivable (Continued)

(1) Details (Continued)

2) Notes receivable and accounts receivable with provision made on an individual basis

| Debtors | Book balance | Provision for bad debts | Provision proportion (%) | Reasons for provision made |
|--|---------------|-------------------------|--------------------------|--|
| Accounts receivable | | | | |
| Dongfang Electric New Energy Equipment (Hangzhou) Co., Ltd. | 2,580,313.34 | 2,580,313.34 | 100.00 | Liquidation procedures in process not expect to be collected |
| KABKableprektionAB | 2,058,597.74 | 2,058,597.74 | 100.00 | Aged receivables, unexpect to be recovered |
| Shenyang Hengyuanda Communication Equipment Co., Ltd. | 1,621,814.62 | 1,621,814.62 | 100.00 | Revoked, not expect to be collected |
| Chuangdong Electrical and Mechanical Company | 1,606,692.41 | 1,606,692.41 | 100.00 | Aged receivables, unexpect to be recovered |
| Wushi Zhida Electronics Co., Ltd. | 1,344,969.65 | 1,344,969.65 | 100.00 | Revoked, not expect to be collected |
| Zhongnan Company, China Postal and Electrical Material Company | 1,116,797.27 | 1,116,797.27 | 100.00 | Aged receivables, unexpect to be recovered |
| Henan Qingfeng County Industry and Commerce Co., Ltd. | 1,007,986.64 | 1,007,986.64 | 100.00 | Aged receivables, unexpect to be recovered |
| Chengdu Optical Communication Network Development Co., Ltd. | 847,136.75 | 847,136.75 | 100.00 | Aged receivables, unexpect to be recovered |
| Sichuan Xinlong Network Technology Company | 767,402.64 | 767,402.64 | 100.00 | Aged receivables, unexpect to be recovered |
| Shenzhen Alliance Electronics Co., Ltd. | 616,075.20 | 616,075.20 | 100.00 | Aged receivables, unexpect to be recovered |
| Qingyang television | 609,572.00 | 609,572.00 | 100.00 | Aged receivables, unexpect to be recovered |
| Dayuan New Materials Trading Company | 592,065.60 | 592,065.60 | 100.00 | Aged receivables, unexpect to be recovered |
| Others | 7,228,916.50 | 7,228,916.50 | 100.00 | Aged receivables, unexpect to be recovered |
| Subtotal | 21,998,340.36 | 21,998,340.36 | 100.00 | |

3) Notes receivable with provision for bad debts made on a collective basis

| Items | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|----------------------------|----------------------|---|--------------------------|
| Bank acceptance portfolio | 33,709,203.82 | 33,709.20 | 0.10 |
| Trade acceptance portfolio | 18,349,584.06 | 91,747.92 | 0.50 |
| Subtotal | 52,058,787.88 | 125,457.12 | 0.24 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

1. Notes receivable and accounts receivable (Continued)

(1) Details (Continued)

- 4) In unrelated party transactions portfolios, accounts receivable with provision made on a collective basis based on the comparison table of expected credit loss rate

| Ages | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|---------------|----------------|---|-----------------------------|
| Within 1 year | 80,803,701.12 | 6,335,010.17 | 7.84 |
| 1-2 years | 2,198,478.32 | 914,786.83 | 41.61 |
| 2-3 years | 1,559,633.45 | 1,236,165.47 | 79.26 |
| Over 3 years | 24,674,016.77 | 23,378,630.89 | 94.75 |
| Subtotal | 109,235,829.66 | 31,864,593.36 | 29.17 |

- 5) In Related party transactions portfolios, accounts receivable with provision made on a collective basis based on the comparison table of expected credit loss rate

| Ages | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|---------------|--------------|---|-----------------------------|
| Within 1 year | 9,511,413.61 | 47,557.07 | 0.50 |
| Total | 9,511,413.61 | 47,557.07 | 0.50 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

1. Notes receivable and accounts receivable (Continued)

(2) Age analysis

| Ages | Book balance | Closing balance | |
|---------------|----------------|-------------------------|--------------------------|
| | | Provision for bad debts | Provision proportion (%) |
| Within 1 year | 137,449,121.24 | 6,483,400.45 | 4.72 |
| 1-2 years | 7,123,259.69 | 939,410.74 | 13.19 |
| 2-3 years | 4,139,946.79 | 3,816,478.81 | 92.19 |
| Over 3 years | 44,092,043.79 | 42,796,657.91 | 97.06 |
| Subtotal | 192,804,371.51 | 54,035,947.91 | 28.03 |

Age analysis should be taken based on the month where amounts incurred. Amounts incurred first should be settled in the first priority when relevant receivables are collected.

The credit terms granted to customers are generally 1 to 12 months. Notes usually come due within 6 months since the date of issue. Accounts receivable that past due are reviewed by Management on a regular basis.

(3) Changes in provision for bad debts

| Items | January 1, 2018 | Increase | | | Decrease | | Closing balance |
|---------------------|-----------------|----------------|---------------------|--------|-----------------------|--------|-----------------|
| | | Provision made | Provision collected | Others | Provision written off | Others | |
| Notes receivable | 52,773.74 | 72,683.38 | | | | | 125,457.12 |
| Accounts receivable | 46,693,333.36 | 7,217,157.43 | | | | | 53,910,490.79 |
| Subtotal | 46,746,107.10 | 7,289,840.81 | | | | | 54,035,947.91 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

1. Notes receivable and accounts receivable (Continued)

(4) Details of the top 5 debtors with largest balances

| Debtors | Book balance | Proportion to the total balance of accounts receivable (%) | Provision for bad debts |
|--|---------------|--|-------------------------|
| Shenzhen Zhongxing Kangxun Electronics Co., Ltd. | 45,888,947.76 | 32.60 | 3,597,693.50 |
| CRRC Zhuzhou Electric Locomotive Co., Ltd. | 15,492,200.79 | 11.01 | 1,214,588.54 |
| Chengdu Zhongling Wireless Communication Cable Co., Ltd. | 4,924,781.37 | 3.50 | 24,623.91 |
| Chengdu Putian New Material Co., Ltd. | 4,586,632.24 | 3.26 | 22,933.16 |
| Zhuzhou Zhongche Times Electric Co., Ltd. | 4,427,976.23 | 3.15 | 347,153.34 |
| Subtotal | 75,320,538.39 | 53.52 | 5,206,992.45 |

(5) Endorsed or discounted but undue notes at the balance sheet date

| Items | Closing balance derecognized | Closing balance not yet derecognized |
|-----------------|------------------------------|--------------------------------------|
| Bank acceptance | 45,404,041.49 | |
| Subtotal | 45,404,041.49 | |

Due to the fact that the acceptor of bank acceptance is commercial bank, which is of high credit level, there is very little possibility of failure in recoverability when it is due. Based on this fact, the Company derecognized the endorsed or discounted bank acceptance. However, if any bank acceptance is not recoverable when it is due, the Company still holds joint liability on such acceptance, according to the China Commercial Instrument Law.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

2. Other receivables

(1) Details

1) Details on categories of other receivables

| Categories | Book balance | | Closing balance | | Carrying amount |
|--|---------------|------------|-----------------|---|-----------------|
| | Amount | % to total | Amount | Provision for bad debts Provision proportion (%) | |
| Receivables with provision made on an individual basis | 4,320,646.95 | 6.92 | 4,320,646.95 | 100.00 | |
| Receivables with provision made on a collective basis | 58,099,253.34 | 93.08 | 23,340,949.17 | 40.17 | 34,758,304.17 |
| Total | 62,419,900.29 | 100.00 | 27,661,596.12 | 44.32 | 34,758,304.17 |

| Categories | Book balance | | Opening balance | | Carrying amount |
|--|---------------|------------|-----------------|---|-----------------|
| | Amount | % to total | Amount | Provision for bad debts Provision proportion (%) | |
| Receivables with provision made on a collective basis using portfolios with similar credit risk features | 66,758,518.22 | 94.13 | 23,741,468.87 | 35.56 | 43,017,049.35 |
| Receivable of individually insignificant amount but with provision made on an individual basis | 4,162,514.56 | 5.87 | 4,162,514.56 | 100.00 | |
| Total | 70,921,032.78 | 100.00 | 27,903,983.43 | 39.35 | 43,017,049.35 |

2) Other receivables with provision made on an individual basis

| Debtors | Book balance | Provision for bad debts | Provision proportion (%) | Reasons for provision made |
|--|--------------|-------------------------|--------------------------|--|
| Sichuan Tianxin Investment Group Co., Ltd. | 500,000.00 | 500,000.00 | 100.00 | Aged receivables, unexpected to be recovered |
| Chengdu Pike Power Co., Ltd. | 248,940.91 | 248,940.91 | 100.00 | Aged receivables, unexpected to be recovered |
| XIACHADE | 3,000,000.00 | 3,000,000.00 | 100.00 | Aged receivables, unexpected to be recovered |
| Others | 571,706.04 | 571,706.04 | 100.00 | Aged receivables, unexpected to be recovered |
| Subtotal | 4,320,646.95 | 4,320,646.95 | 100.00 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

2. Other receivables (Continued)

(1) Details (Continued)

3) Other receivables with provision made on a collective basis

| Portfolios | Book balance | Closing balance Provision for bad debts | Provision proportion (%) |
|-----------------------------|---------------|---|-----------------------------|
| Lease receivable | 3,126,852.39 | 15,634.26 | 0.50 |
| Deposit, reserve, assurance | 4,900,586.53 | 4,799,831.06 | 97.94 |
| Related party | 31,186,163.05 | 155,930.82 | 0.50 |
| Others | 18,885,651.37 | 18,369,553.03 | 97.27 |
| Subtotal | 58,099,253.34 | 23,340,949.17 | 40.17 |

(2) Changes in provision for bad debts

| Items | January 1, 2018 | Increase | | | Decrease | | Closing balance |
|-------------------|-----------------|----------------|---------------------|--------|--------------------|-----------------------|-----------------|
| | | Provision made | Provision collected | Others | Provision reversed | Provision written off | |
| Other receivables | 27,701,375.21 | -39,779.09 | | | | | 27,661,596.12 |
| Subtotal | 27,701,375.21 | -39,779.09 | | | | | 27,661,596.12 |

(3) Other receivables categorized by nature

| Nature | closing bal. | opening bal. |
|--------------------------------------|---------------|---------------|
| Call loans | 5,558,718.92 | 4,916,324.75 |
| Cash on call | | 15,000,000.00 |
| Lease receivable | 3,126,852.39 | |
| Long-term asset disposal | 1,474,780.00 | |
| Temporary advance payment receivable | 48,789,548.98 | 51,004,708.03 |
| Government subsidies | 3,470,000.00 | |
| Total | 62,419,900.29 | 70,921,032.78 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

2. Other receivables (Continued)

(4) Details of the top 5 debtors with largest balances

| Debtors | Nature of receivables | Book balance | Ages | Proportion to the total balance of other receivables (%) | Provision for bad debts |
|--|-------------------------------|---------------|-------------------------------|--|-------------------------|
| Chengdu Zhongling Wireless Communication Cable Co., Ltd. cash on call. | Temporary payment receivable | 26,157,261.86 | Less than 1 year. 1-2 year | 41.91 | 130,786.31 |
| Tazishan Material Factory | Temporary payment receivable | 8,391,138.00 | Over 5 years | 13.44 | 8,391,138.00 |
| Tianyun Technology (Suzhou) Co., Ltd. | Deposit | 4,786,324.75 | Over 5 years | 7.67 | 4,786,324.75 |
| Shenzhen Fuyu Industrial Co., Ltd. | Temporary payment receivable | 3,566,915.53 | Over 5 years | 5.71 | 3,566,915.53 |
| China Putian Information Industry Group Co., Ltd. | Government subsidy receivable | 3,470,000.00 | Less than 1 year | 5.56 | 17,350.00 |
| Subtotal | | 46,371,640.14 | | 74.29 | 16,892,514.59 |

(5) Government grants recognized based on amounts receivable

| Debtors | Items of government grants | Book balance | Ages | Estimated receipt time, amount and basis |
|---|-----------------------------|--------------|---------------|---|
| China Putian Information Industry Group Co., Ltd. | Hardship enterprise subsidy | 3,470,000.00 | Within 1 year | According to the Notice of the Ministry of Finance on the Special Management Grant Fund for the Central Detachable Enterprises of the Central State-owned Capital Operating Budget of 2018 (Treasury [2018] No. 75), China Putian Information Industry Group Co., Ltd. has been on behalf of the Company on November 23, 2018. Received 3.47 million yuan from the hardship enterprise. |
| Subtotal | | 3,470,000.00 | | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

3. Long-term equity investments

(1) Categories

| Items | Closing balance | | | Opening balance | | |
|--|-----------------------|--------------------------|-----------------------|-----------------|--------------------------|-----------------|
| | Book balance | Provision for impairment | Carrying amount | Book balance | Provision for impairment | Carrying amount |
| Investments in subsidiaries | 185,640,969.81 | 7,480,000.00 | 178,160,969.81 | 166,140,969.81 | 7,480,000.00 | 158,660,969.81 |
| Investments in associates and joint ventures | 129,395,106.16 | 125,903.35 | 129,269,202.81 | 129,596,625.31 | 125,903.35 | 129,470,721.96 |
| Total | 315,036,075.97 | 7,605,903.35 | 307,430,172.62 | 295,737,595.12 | 7,605,903.35 | 288,131,691.77 |

(2) Investments in subsidiaries

| Invested unit | Opening balance | Increase in current period | Decrease in current period | Closing bal | Provision for impairment in the current period | End of impairment provision |
|--|-----------------|----------------------------|----------------------------|-----------------------|--|-----------------------------|
| | | | | | | |
| Chengdu Putian New Material Co., Ltd. | 15,013,376.15 | 19,500,000.00 | | 34,513,376.15 | | |
| Chengdu Zhongling Wireless Communication Cable Co., Ltd. | 72,702,773.95 | | | 72,702,773.95 | | |
| Chengdu Zhongzhu Optical Fiber Co., Ltd. | 70,424,819.71 | | | 70,424,819.71 | | |
| Chongqing Pu Taifeng Aluminum Industry Co., Ltd. | 8,000,000.00 | | | 8,000,000.00 | | 7,480,000.00 |
| Subtotal | 166,140,969.81 | 19,500,000.00 | | 185,640,969.81 | | 7,480,000.00 |

(3) Investments in associates and joint ventures

| Investees | Opening balance | Investments increased | Investments decreased | Increase/Decrease | |
|--|-----------------|-----------------------|-----------------------|--|--|
| | | | | Investment income recognized under equity method | Adjustment in other comprehensive income |
| Chengdu Cable Material Factory | 125,903.35 | | | | |
| Chengdu Bada Connector Co., Ltd. | 5,112,490.56 | | | -380,111.44 | |
| Chengdu Yuexin Communication Materials Co., Ltd. | 1,486,044.63 | | | -847,627.95 | |
| Putian Farr Shengguang Communication Co., Ltd. | 122,872,186.77 | | | 1,026,220.24 | |
| Subtotal | 129,596,625.31 | | | -201,519.15 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items of parent company balance sheet (Continued)

3. Long-term equity investments (Continued)

(3) Investments in associates and joint ventures (Continued)

| Investees | Changes in other equity | Increase/Decrease | | | Others | Closing balance | Closing balance of provision for impairment |
|--|-------------------------|-----------------------------------|---------------|------------|--------|-----------------------|---|
| | | Cash dividend/profit declared for | Provision for | impairment | | | |
| Chengdu Cable Material Factory | | | | | | 125,903.35 | 125,903.35 |
| Chengdu Bada Connector Co., Ltd. | | | | | | 4,732,379.12 | |
| Chengdu Yuexin Communication Materials Co., Ltd. | | | | | | 638,416.68 | |
| Putian Farr Shengguang Communication Co., Ltd. | | | | | | 123,898,407.01 | |
| Subtotal | | | | | | 129,395,106.16 | 125,903.35 |

(II) Notes to items of the parent company income statement

1. Operating revenue/cost

(1) Details

| Items | Current period cumulative | | Preceding period comparative | |
|------------------|---------------------------|-----------------------|------------------------------|----------------|
| | Revenue | Cost | Revenue | Cost |
| Main operations | 228,557,712.47 | 231,347,931.18 | 190,602,018.34 | 184,735,345.42 |
| Other operations | 36,110,692.57 | 18,776,847.37 | 45,213,476.40 | 28,801,868.84 |
| Total | 264,668,405.04 | 250,124,778.55 | 235,815,494.74 | 213,537,214.26 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the parent company income statement (Continued)

1. Operating revenue/cost (Continued)

(2) Breakdown of revenue by main categories

| Segment | Copper cable and related products | Subtotal |
|--|-----------------------------------|----------------|
| Main product categories | | |
| Track cable | 29,917,489.19 | 29,917,489.19 |
| Component processing and component trade | 154,700,913.56 | 154,700,913.56 |
| Electrical equipment | 43,939,309.72 | 43,939,309.72 |
| Lease | 22,321,689.40 | 22,321,689.40 |
| Others | 13,789,003.17 | 13,789,003.17 |
| Subtotal | 264,668,405.04 | 264,668,405.04 |
| Revenue recognition time | | |
| Goods (transferred at a point in time) | 242,346,715.64 | 242,346,715.64 |
| Services (rendered over time) | 22,321,689.40 | 22,321,689.40 |
| Subtotal | 264,668,405.04 | 264,668,405.04 |

(3) The income recognized in the current period including the book value at the beginning of the contract liability period was RMB6,182,483.31.

2. R&D expenses

| Items | Current period cumulative | Preceding period comparative |
|---------------------------|---------------------------|------------------------------|
| Labour cost | 1,459,406.43 | 504,085.43 |
| Include: Salary | 1,107,543.21 | 376,401.91 |
| Bonus | 4,612.50 | 10,702.50 |
| Social insurance | 325,099.85 | 109,462.98 |
| Others | 22,150.87 | 7,518.04 |
| Fixed assets depreciation | 256,790.38 | 1,121,065.23 |
| Others | 121,942.57 | 157,219.09 |
| Total | 1,838,139.38 | 1,782,369.75 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XIV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items of the parent company income statement (Continued)

3. Investment income

| Items | Current period cumulative | Preceding period comparative |
|---|---------------------------|------------------------------|
| Investment income from long-term equity investments under equity method | -201,519.15 | 8,683,351.35 |
| Investment income from long-term equity investments under cost method | 30,000,000.00 | 18,000,000.00 |
| Total | 29,798,480.85 | 26,683,351.35 |

XV. OTHER SUPPLEMENTARY INFORMATION

(I) Non-recurring gains and losses

| Items | Amount | Remarks |
|---|--------------|---------|
| Gains on disposal of non-current assets, including written-off of provision for impairment | -624,084.22 | |
| Government grant included in profit or loss (excluding those closely related to operating activities, or regular government grants) | 7,815,628.01 | |
| Fund possession charge from non-financial entities and included in profit or loss | 55,031.44 | |
| Gains on debt restructuring | 650,000.00 | |
| Other non-operating revenue or expenditures | -349,847.43 | |
| Subtotal | 7,546,727.80 | |
| Less: enterprise income tax affected | 13,154.30 | |
| Non-controlling interest affected (after tax) | -255,436.82 | |
| Net non-recurring profit or loss attributable to shareholders of the parent company | 7,789,010.32 | |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(II) Return on equity and earnings per share

1. Details

| Profit of the reporting period | Weighted | EPS (yuan/share) | |
|---|------------------|------------------|-------------|
| | average RONA (%) | Basic EPS | Diluted EPS |
| Net profit attributable to shareholders of ordinary shares | -1.63 | -0.04 | -0.04 |
| Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss | -2.48 | -0.06 | -0.06 |

2. The process of calculating the weighted average return on equity

| Items | Symbols | Current period cumulative |
|---|--|---------------------------|
| Net profit attributable to shareholders of ordinary shares | A | -15,012,917.51 |
| Non-recurring profit or loss | B | 7,789,010.32 |
| Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss | C=A-B | -22,801,927.83 |
| Opening balance of net assets attributable to shareholders of ordinary shares | D | 935,068,033.16 |
| Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares | E | |
| Number of months counting from the next month when the net assets were increased to the end of the reporting period | F | |
| Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation | G | |
| Number of months counting from the next month when the net assets were decreased to the end of the reporting period | H | |
| Others Equity instrument investments measured at fair value through other comprehensive income | I1 | 647,269.05 |
| Number of months counting from the next month when other net assets were increased or decreased to the end of the reporting period | J1 | 6.00 |
| Change of capital reserve caused by acquisition of minority shareholders' rights and interests | I2 | -12,640,657.75 |
| The cumulative number of months from the next month to the end of the reporting period | J2 | 9.00 |
| Number of months in the reporting period | K | 12.00 |
| Weighted average net assets | $L = D + A/2 + E \times F/$ $K - G \times H/K \pm I \times J/K$ | 927,885,208.93 |
| Weighted average RONA | $M = A/L$ | -1.63 |
| Weighted average RONA after deducting non-recurring profit or loss | $N = C/L$ | -2.48 |

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2018

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(II) Return on equity and earnings per share (Continued)

3. Calculation process of basic earnings per share and diluted earnings per share

(1) Calculation process of basic earnings per share

| Items | Symbols | Current period cumulative |
|--|-----------------------------|------------------------------|
| Net profit attributable to shareholders of ordinary shares | A | -15,012,917.51 |
| Non-recurring profit or loss | B | 7,789,010.32 |
| Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss | C=A-B | -22,801,927.83 |
| Opening balance of total shares | D | 400,000,000.00 |
| Number of shares increased due to conversion of reserve to share capital or share dividend appropriation | E | |
| Number of shares increased due to offering of new shares or conversion of debts into shares | F | |
| Number of months counting from the next month when the share was increased to the end of the reporting period | G | |
| Number of shares decreased due to share repurchase | H | |
| Number of months counting from the next month when the share was decreased to the end of the reporting period | I | |
| Number of shares decreased in the reporting period | J | |
| Number of months in the reporting period | K | 12.00 |
| Weighted average of outstanding ordinary shares | $L=D+E+FxG/$ $K-HxI/K-J$ | 400,000,000.00 |
| Basic EPS | $M=A/L$ | -0.04 |
| Basic EPS after deducting non-recurring profit or loss | $N=C/L$ | -0.06 |

(2) Diluted earnings per share calculation process

The process of calculating the diluted earnings per share is same as the calculation of the basic earnings per share.

Chengdu PUTIAN Telecommunications Cable Company Limited

22nd March 2018

REGISTERED NAME OF THE COMPANY

成都普天電纜股份有限公司

ENGLISH NAME OF THE COMPANY

Chengdu PUTIAN Telecommunications Cable
Company Limited

LEGAL REPRESENTATIVE

Wu Changlin

EXECUTIVE DIRECTORS

Wu Changlin (*Chairman*)
Hu Jiangbing (*Vice Chairman*)
Han Shu
Wang Micheng
Xu Liying
Liu Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mao Yaping
Xiao Xiaozhou
Feng Gang

SUPERVISORS

Zheng Zhili
Xiong Ting
Liu Jun

COMPANY SECRETARY

Shum Shing Kei

QUALIFIED ACCOUNTANT

Yu Qian

AUTHORIZED REPRESENTATIVES

Hu Jiangbing
Shum Shing Kei

BOARD COMMITTEES

AUDIT COMMITTEE

Mao Yaping (*Chairman*)
Xiao Xiaozhou
Feng Gang

REMUNERATION AND APPRAISAL COMMITTEE

Xiao Xiaozhou (*Chairman*)
Mao Yaping
Feng Gang
Han Shu
Xu Liying

NOMINATION COMMITTEE

Feng Gang (*Chairman*)
Mao Yaping
Xiao Xiaozhou
Wang Micheng
Liu Yun

STRATEGIC DEVELOPMENT COMMITTEE

Wu Changlin (*Chairman*)
Hu Jiangbing
Mao Yaping
Xiao Xiaozhou
Feng Gang

REGISTERED ADDRESS AND OFFICE ADDRESS OF THE COMPANY IN THE PRC

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CORPORATE INFORMATION

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BUSINESS REGISTRATION NUMBER

No. 1972 of Qi He Chuan Rong Zong Zi

SOCIAL CREDIT CODE

9151010020193968XY

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Stock Code: 1202

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The PRC

H SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
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Chengdu, Sichuan Province,
The PRC

TIME OPEN FOR SHAREHOLDERS RECEPTION

On 8th and 18th every month (or the following day in case
of holiday in the PRC)
9:00 am to 12:00 noon
2:00 pm to 5:00 pm
Tel: (028) 8787 7008
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THE COMPANY'S WEBSITE AND EMAIL

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