普天通信集團有限公司
PUTIAN COMMUNICATION GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock code: 1720

2018 ANNUAL REPORT

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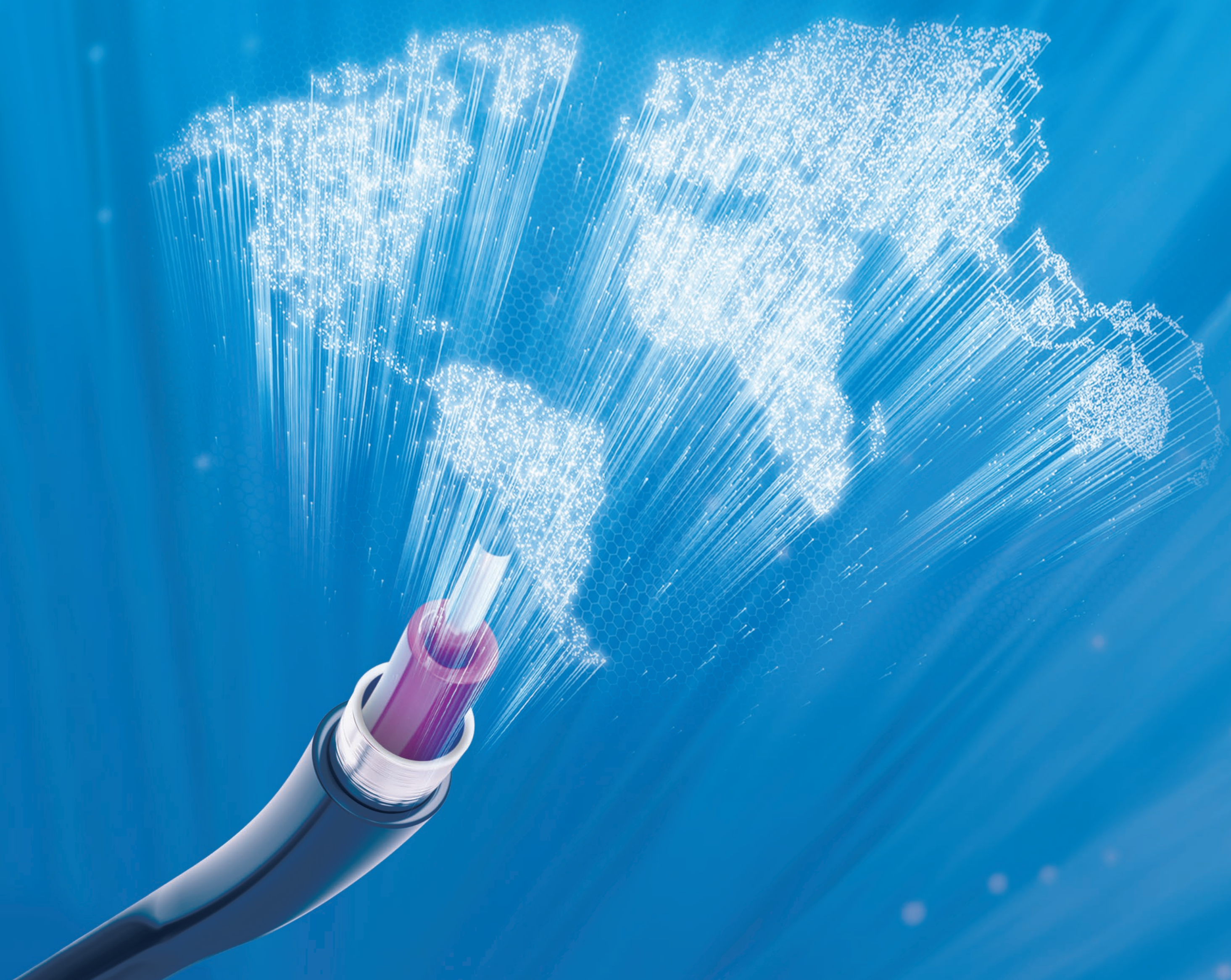


CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Wang Qiuping
(Chairlady and Chief Executive Officer)
Mr. Zhao Xiaobao (alias Zhao Baohua)
Ms. Zhao Moge

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheng Shing Yan
Mr. Liu Guodong
Mr. Xie Haidong

AUDIT COMMITTEE

Ms. Cheng Shing Yan *(Chairlady)*
Mr. Liu Guodong
Mr. Xie Haidong

REMUNERATION COMMITTEE

Mr. Liu Guodong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Xie Haidong

NOMINATION COMMITTEE

Mr. Xie Haidong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Liu Guodong

COMPANY SECRETARY

Ms. Lai Yeung Fun

AUTHORISED REPRESENTATIVES

Ms. Wang Qiuping
Ms. Lai Yeung Fun

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 702, Golden Centre
188 Des Voeux Road Central, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8899 ChangDong Avenue
Hi-tech Development Zone
Nanchang, Jiangxi Province
The PRC

AUDITOR

BDO Limited

COMPLIANCE ADVISER

SPDB International Capital Limited

LEGAL ADVISER AS TO HONG KONG LAWS

King & Wood Mallesons

PRINCIPAL BANKERS

Bank of China (Nanchang Xihu Branch)
Bank of Communication (Jiangxi Branch)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22 Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.potel-group.com

STOCK CODE

1720

COMPANY PROFILE

Putian Communication Group Limited (the "**Company**") (Stock code: 1720) (together with its subsidiaries, collective referred to as the "**Group**") is a well-established and fast-growing communication cable manufacturer and structured cabling system product provider based in Jiangxi Province, the PRC.

The Group has commenced its communication cable manufacturing since 2001. It provides a wide range of optical fiber cables, communication copper cables and structured cabling system products under the brand names of "普天汉飞" and "Hanphy". Its optical fiber cables and communication copper cables are mainly used by major telecommunications network operators in the PRC for network construction and maintenance. Its structured cabling system products primarily include optical and copper jumper wires and connection and distribution components such as distribution frames, wiring closets, as well as data and audio modules and faceplates. Structured cabling system products are components of the wiring system, including optical fiber-based cabling system and copper-based system, within buildings for the information transmission. The Group is one of the most diversified suppliers in the communication cable industry in the PRC. Its superior product quality, constant availability, responsive customer services and competitive prices are well recognized by its customers.

The Group continues to strengthen its research and development capabilities which have enable it to continuously develop new products and upgrade its existing products. Since 2006, one of the Group's major wholly owned subsidiaries, Putian Cable Group Co., Ltd, has been consecutively recognized as a New High-tech Enterprise by Jiangxi Provincial Department of Science and Technology.

On 9 November 2017 (the "**Listing Date**"), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). As at 31 December 2018, the Company had 1,100,000,000 issued shares.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the Group's operating results were as follows:

- Total revenue increased by approximately 26.4% to approximately RMB785.0 million (2017: approximately RMB621.3 million).
- Gross profit increased by approximately 27.4% to approximately RMB196.5 million (2017: approximately RMB154.3 million).
- Gross profit margin slightly increased by approximately 0.2% to approximately 25.0% (2017: approximately 24.8%).
- Profit for the year attributable to owners of the Company significantly increased by approximately 46.3% to approximately RMB85.0 million (2017: approximately RMB58.1 million).
- The Group's revenue from sale of optical fiber cables increased by approximately 29.8% to approximately RMB316.2 million (2017: approximately RMB243.6 million); revenue from sale of structured cabling system products significantly increased by approximately 45.1% to approximately RMB178.2 million (2017: approximately RMB122.8 million); and revenue from sale of communication copper cables increased by approximately 14.0% to approximately RMB290.6 million (2017: approximately RMB254.9 million).
- The board of directors of the Company (the "**Board**") did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and as appropriate, is set out below.

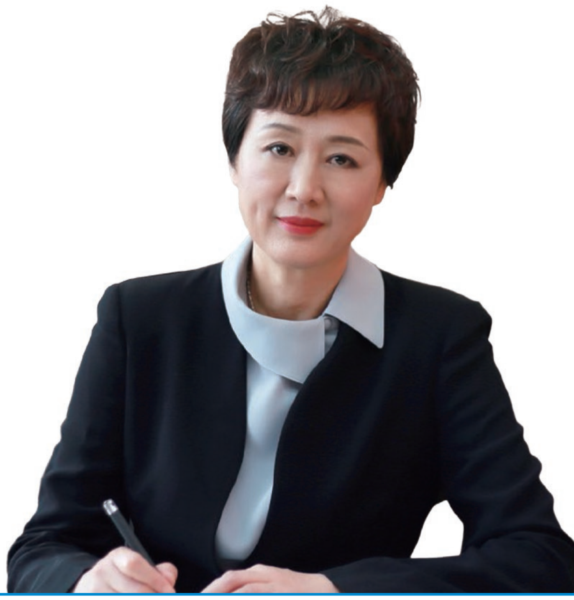
RESULT

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**784,997**	621,281	467,919	361,726	270,770
Profit before income tax expense	**104,678**	73,352	63,144	40,582	20,987
Income tax expense	**(19,685)**	(15,301)	(11,045)	(6,224)	(3,199)
Profit for the year	**84,993**	58,051	52,099	34,358	17,788
Profit for the year attributable to:					
Owners of the Company	**84,993**	58,051	52,102	34,368	17,788
Non-controlling interests	**–**	–	(3)	(10)	–
	84,993	58,051	52,099	34,358	17,788

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**631,640**	484,086	326,552	291,605	250,051
Total liabilities	**(226,674)**	(160,637)	(100,637)	(115,418)	(108,222)
	404,966	323,449	225,915	176,187	141,829
Equity attributable to owners of the Company	**404,966**	323,449	225,915	173,747	139,379
Non-controlling interests	**–**	–	–	2,440	2,450
	404,966	323,449	225,915	176,187	141,829

CHAIRMAN'S STATEMENT



Wang Qiuping
Chairlady

Dear Shareholders,

On behalf of the Board of directors (the "**Directors**") of the Company, I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2018 (the "**Year**").

BUSINESS REVIEW

The Group has accomplished a good financial result for the Year. It recorded a revenue of approximately RMB785.0 million which represented a growth of approximately 26.4% as compared with the one for the year ended 31 December 2017 (the "**Last Year**"). The Group has realized a gross profit of approximately RMB196.5 million for the Year, which represented a growth of approximately 27.4% as compared to the one for the Last Year. Profit for the Year attributable to owners of the Company was approximately RMB85.0 million, significantly increased by approximately 46.3% as compared with the one for the Last Year.

The significant increase in revenue was mainly attributable to (i) the sale of optical fiber cables which was increased by approximately 29.8% to approximately RMB316.2 million (2017: approximately RMB243.6 million); (ii) the sale of structured cabling system products which was increased by approximately 45.1% to approximately RMB178.2 million (2017: approximately RMB122.8 million); and (iii) the sale of communication copper cables increased by approximately 14.0% to approximately RMB290.6 million (2017: approximately RMB254.9 million).

The Group has completed the construction completion of the first phase of the its second production site, Yaohu Factory, which has significantly increased the Group's aggregate annual production capacity of optical fiber cables from approximately 1.2 million fkm to approximately 5.6 million fkm. Supported by the enlarged capacity, the Group is able to compete for large tenders and has been rewarded more orders from the major telecommunications network operators in the PRC. The Group has realized a growth rate above its market peers. To achieve a continuous business growth, the Group intends to increase market share through strengthening its relationships with key customers, in particular major telecommunications network operators in the PRC, and increasing penetration of its products through continuous upgrading and development of new products. In addition, the Group is going to expand its business into the production of optical fibers and through which to obtain control over optical fiber supply, improve supply chain efficiency and strive for better profit margin.

Expansion of the Group's structured cabling business is one of its important strategic focus. The Group has penetrated into the structured cabling market since 2012 and had the first mover advantage over its peers. The Group has established 26 sales representative offices nationwide targeting a broad range of communication system solution providers and constructions contractors in the PRC. With extensive experience in the production, research and development of cable products, the Group is able to offer extensive and high-quality structured cabling system products to satisfy diverse demands of its customers in various application scenarios covering commercial buildings, smart residential compounds and security systems. During the year, the Group has organized various seminars and conferences to promote its brand awareness. Such strategy has been proved to be successful and led the Group to a robust growth in its structured cabling system products business for the Year. The Group adheres to a fine craftsmanship manufacturing concept. By virtue of "photoelectric mixing cable", "security composite cable", "indoor armored soft fiber optical cable" supporting a series of structured cabling system products, the Group was awarded as one of the Top 10 structured cabling brands in the PRC by China Intelligent Building Magazine (《智能建築》雜誌) for 2018. The Group has been honored with this award every year since 2015.

In respect of the copper communication cable business, given the decreasing demand and stringent safety and environmental standards requirements, we note that large number of smaller communication copper cable manufacturers have been washed out and their market shares have been taken up by remaining manufacturers who have stronger capital and technical capacities. The Group has been benefited from this trend. Its revenue generated from sale of communication copper cables increased by approximately 14.0% from approximately RMB254.9 million for the Last Year to approximately RMB290.6 million for the Year. The proportion of revenue contributed from the sales of communication copper cable decreased from approximately 41.0% for the Last Year to approximately 37.0% for the Year as the Group has reserved more resources to expand its business in optical fiber cable segment and structured cabling system products segment and has successfully recorded a rapid growth in these two segments for the Year.

OUTLOOK

2019 is a year of opportunities and challenges for communication cable manufacturers. Competition amongst peers trended to intensified because of the capacity expansion while a growth of market demand in communication cables is expected to remain strong as substantial investments are expected to place in the 5G communication infrastructure.

Looking forwards, the 5G network, big data and artificial intelligence will create a digital economy and smart city. Optical fiber cables, copper communication cables and structured cabling system products are the information transmission channels, which are the most fundamental part of the infrastructure development of a smart city. The tide of 5G network and smart city construction expands a new landscape to the communication cable manufacturing industry.

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

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

The Group noted that the downstream markets of structured cabling system products in China are continuously expanding. It is expected that there will be a sustainable growth in the demand for video security (視頻安防), smart home (智能家居), communication device (通信設備) and intelligent building (智能化建築) in the coming years. Leveraging on the Group's industry experience and well-established customer base, the Group plans to explore the opportunity to diversify its products to increase penetration in these markets through self-development, merger and acquisition of and/or strategic cooperation with suitable market players, such as product manufacturers, service providers and distributors. As at the date of this annual report, the Board did not identify any suitable investment projects.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers, suppliers, professional parties, business partners and the public community for their support to our business. I would also like to express our sincere thanks to all our employees for their hard work and contribution.

I strongly believe that the concerted effort of staff and stakeholders will continue to propel the growth momentum of the Group going forward.

Wang Qiuping

Chairlady

MANAGEMENT DISCUSSION AND ANALYSIS

A. FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fiber cables, communication copper cables and structured cabling system products, which represents three reportable segments, respectively. Revenue of the Group increased by approximately 26.4% from approximately RMB621.3 million for the Last Year to approximately RMB785.0 million for the Year. Among which, revenue derived from sale of optical fiber cables increased by approximately 29.8% from approximately RMB243.6 million for the Last Year to approximately RMB316.2 million for the Year; revenue derived from sale of structured cabling system products significantly increased by approximately 45.1% from approximately RMB122.8 million for the Last Year to approximately RMB178.2 million for the Year; and revenue derived from sale of communication copper cables increased by approximately 14.0% from approximately RMB254.9 million for the Last Year to approximately RMB290.6 million for the Year.

Gross profit and margin

Gross profit increased by approximately 27.4% to approximately RMB196.5 million for the Year from approximately RMB154.3 million for the Last Year. The Group's gross profit margin was slightly improved to approximately 25.0% for the Year from approximately 24.8% for the Last Year. The improvement in gross profit margin was primarily because a larger portion of revenue was generated from optical fiber cables and structured cabling system products both of which have a higher profit margin.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 42.6% from approximately RMB24.2 million for the Last Year to approximately RMB34.5 million for the Year, primarily due to (i) an increase of approximately RMB4.6 million in transportation fees as a result of the increase of customer orders; and (ii) an increase of approximately RMB2.8 million in salaries and welfare expenses for our selling and marketing staff, reflecting our strengthened marketing efforts. Selling expenses as a percentage of our revenue slightly increased, which was approximately 4.4% for the Year as compared to approximately 3.9% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB50.9 million for the Year, which remained stable as compared to the one of approximately RMB52.0 for the Last Year. The year-on-year movement mainly represented the aggregate effect of (i) a decrease of approximately RMB16.1 million in listing fee in connection with the Share Offering; (ii) an increase of approximately RMB6.2 million in research and development expenses as the Group put strengthened efforts on researching project in developing new type of products and improving the Group's production efficiency; and (iii) an increase of approximately RMB6.3 million in salaries and welfare expenses as a result of the hire of additional administrative personnel and the increased average salaries.

Finance costs

Finance costs increased by approximately 19.6% from approximately RMB5.1 million for the Last Year to approximately RMB6.1 million for the Year primarily arising from the borrowings of RMB50.0 million from independent third parties to repay the amount due to controlling shareholders resulting from the reorganisation for the Share Offering. Such borrowings incurred in July 2017 and RMB20.0 million out of which was repaid in the last quarter of the Year. The Group borrowed from independent third parties instead of banks because it would be more flexible for the Group to negotiate with the lenders other than banks in terms of time spent and quality of collateral required.

Income tax expense

Income tax expense increased by approximately 28.8% from approximately RMB15.3 million for the Last Year to approximately RMB19.7 million for the Year, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 20.9% for the Last Year and approximately 18.8% for the Year.

Profit for the Year

Profit for the Year increased by approximately 46.3% from approximately RMB58.1 million for the Last Year to approximately RMB85.0 million for the Year.

Particulars of the Group's segment information are set out in note 6 to the Consolidated Financial Statements.

Cash position

As at 31 December 2018, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB105.4 million (2017: approximately RMB108.6 million), representing a decrease of approximately 3.0% as compared to that as at 31 December 2017. As at 31 December 2018, the Group had restricted cash of approximately RMB16.2 million (2017: RMB50,000) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2018, the Group had bank borrowings of approximately RMB10.0 million which were secured by legal charge over the properties of the controlling shareholders and their associates. All bank borrowings were repayable within one year. As at 31 December 2017, the Group had bank borrowings of approximately RMB61.8 million which were secured by legal charge over the properties of the Group and corporate guarantees from the Group. All bank borrowings are repayable within one year.

In addition to bank borrowings, on 29 July 2017, the Group obtained loans from independent third parties in an amount of RMB50.0 million to repay the amount due to controlling shareholders resulting from the reorganisation of the Share Offering. The loans carried a fixed interest rate of 8.16% per annum and due on 30 June 2019. The Group has repaid RMB12.0 million and RMB8.0 million in October and November 2018 respectively.

On 28 December 2018, the Company as a borrower entered into a loan agreement ("**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") in relation to a loan with a total principal amount of up to HK$200.0 million (the "**Loan**"). The first batch of the Loan of HK$100.0 million was drawn on 28 December 2018. According to the Loan Agreement, unless the Company and the lender agree to extend for further one year, the Loan shall be fully repaid by the Company on 27 December 2020. Pursuant to the Loan Agreement, each of Ms. Wang Qiuping ("**Ms. Wang**") and Mr. Zhao Xiaobao ("**Mr. Zhao**"), both being the controlling shareholders of the Company, provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents. Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital Co., Ltd and Point Stone Capital Co., Ltd, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms. Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel and Point Stone, representing the entire issued shares of Arcenciel and Point Stone, respectively, in favour of the Lender.

Gearing ratio

As at 31 December 2018, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.56 (2017: approximately 0.50).

Total debt to total asset ratio

As at 31 December 2018, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.36 (2017: approximately 0.33).

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank borrowings. The Group does not have an interest rate hedging policy. However, the directors of the Group monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain of the bank and other borrowings of the Group as at 31 December 2018 and 2017 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 26 to the consolidated financial statement.

The Group's exposures to interest rate risk are detailed in note 39(a) to the consolidated financial statements.

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

The Group trades only with recognised and credit-worthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the directors of the Company review the recoverable amount of each individual trade and bills receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

The Group's exposures to credit risk are detailed in note 39(b) to the consolidated financial statements.

Liquidity risk

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

The Group's remaining contractual maturity for its non-derivative financial liabilities was detailed in note 39(c) to the consolidated financial statements.

Currency risk

The Group is only exposed to currency risk through cash and cash equivalent balances that are denominated in HKD and USD, the currencies other than the functional currency of the entity to which they relate. The Group minimized its financial assets or liabilities denominated in currencies other than its functional currency to mitigate its exposure to currency risk. The Group has not adopted any foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting appropriate foreign currency hedging policy in the future and will make disclosures as and when necessary.

The Group's exposures to currency risk are detailed in note 39(d) to the consolidated financial statements.

Capital Commitments

As at 31 December 2018, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment and intangible assets amounting to approximately RMB9.5 million (2017: approximately RMB1.4 million).

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit.

Employees and remuneration policies

As at 31 December 2018, the Group had approximately 471 employees (2017: approximately 375 employees). For the Year, the Group incurred staff costs of approximately RMB40.9 million (2017: approximately RMB28.3 millions). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

B. USE OF PROCEEDS FROM THE SHARE OFFERING

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

As at 31 December 2018, full amount of the net proceeds has been used by the Group. Set out below is a summary of the utilisation of the net proceeds:

	%	**Original plan allocation of net proceeds** RMB million	**Actual utilised amount as at 31 December 2018** RMB million
For the upstream vertical expansion into the optical fiber production	46.0%	57.3	57.3
For the settlement of partial payment for the four new optical fiber cable production lines	13.6%	16.9	16.9
For the enhancement of the structured cabling system products production equipment	12.5%	15.6	15.6
For financing the research and development of diversified new products and the production processes	8.9%	11.0	11.0
For repayment of part of the bank loans	10.6%	13.2	13.2
For working capital and other	8.4%	10.5	10.5
	100.0%	124.5	124.5

C. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. The Environmental, Social and Governance Report was set out on page 34 of this annual report in compliance with the Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

D. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintaining a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with Its suppliers, please refer to the Environmental, Social and Governance Report was set out on page 34 of this annual report.

E. COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in this annual report, during the Year, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Ms. Wang Qiuping (王秋萍), aged 55, is an executive Director, the chairlady of the Board and chief executive officer of the Company responsible for the overall business management and strategic planning of the Group. Ms. Wang is also the founder of the Group and one of the controlling shareholders. Before the establishment of the Group, Ms. Wang worked in the Jiangxi Province Communication and Electric Cable Factory* (江西省通信電纜廠) from 1984 to 1991, with her last position responsible for advertising. In November 1999, Ms. Wang set up Jiangxi Putian Building Intelligence Co., Ltd. ("**Jiangxi Building**"), which has been principally engaged in the sales of structured cabling system products since its incorporation. Save for Jiangxi Changtian Optical Communication Co., Ltd ("**Jiangxi Optical**"), Ms. Wang is a director of each of the subsidiaries of the Group. Ms. Wang is also a supervisor of Jiangxi Optical. Ms. Wang has been the deputy to the People's Congress of Nanchang City (南昌市人大代表) since October 2016. Ms. Wang obtained a diploma in basic theory of Marxism* (馬列主義基礎理論) from Jiangxi Normal University (江西師範大學) in the PRC in December 1986.

Ms. Wang was awarded "May 1" Jinguo Biaobing of Jiangxi Province by Jiangxi Federation of Trade Unions in March 2018 and 2018 Outstanding Enterpreneur of Nanchang High-tech Industrial Development Zone by Nanchang High-tech Industrial Development Zone Government in March 2019.

Ms. Wang is the spouse of Mr. Zhao, the mother of Ms. Zhao Moge and the sister-in-law of Mr. Ye Fanxiu.

Mr. Zhao Xiaobao (趙小寶) (alias Zhao Baohua (趙保華)), aged 54, is an executive Director responsible for the overall sales of the Group. He joined the Group in June 2001. Mr. Zhao is a director of each of Putian Cable Group Co., Ltd and Jiangxi Optical and a supervisor of Jiangxi Building. Mr. Zhao has more than 17 years of experience in the production and sales in the telecommunications industry. Before joining the Group, he had worked as an officer at the regulatory division of the Administration for Industry and Commerce of Nanchang City from 1984 to 1999, responsible for the execution of relevant laws, rules and regulations relating to commodity trading markets in Nanchang.

Mr. Zhao obtained a diploma in business administration management (工商行政管理) from Wuhan University (武漢大學) in the PRC in July 1992.

Mr. Zhao is the spouse of Ms. Wang, the father of Ms. Zhao Moge and the brother-in-law of Mr. Ye Fanxiu.

Ms. Zhao Moge (趙默格), aged 30, is an executive Director responsible for the overall operation and finance of the Group.

Ms. Zhao joined the Group in July 2011 and had held various positions. She first started working for the Group as an administrative executive responsible for administrative matters. She became an accounting assistant in May 2012 and was promoted to accounting manager with responsibility for managing and overseeing the daily operation of accounting department in July 2014. In April 2015, she became the general manager of Putian Cable (Shanghai) Building Intelligence Co., Ltd ("**Putian Cable (Shanghai)**") and was responsible for the marketing and sales in the PRC market. Ms. Zhao is a director of Putian Cable and a supervisor of Putian Cable (Shanghai). Ms. Zhao obtained a bachelor of engineering from Nanchang University (南昌大學) in the PRC in June 2011.

Ms. Zhao is the daughter of Ms. Wang and Mr. Zhao.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheng Shing Yan (鄭承欣) ("**Ms. Cheng**"), aged 44, was appointed as an independent non-executive Director on 21 October 2017. She is the chairlady of the audit committee of the Company (the "**Audit Committee**") and a member of each of the nomination committee (the "**Nomination Committee**") and the remuneration committee of the Company (the "**Remuneration Committee**").

Ms. Cheng has about 21 years of experience in the fields of accounting and auditing. Ms. Cheng joined the group of Sanroc International Holdings Limited (now known as Zhaobangji Properties Holdings Limited), which is listed on the Main Board of the Stock Exchange (stock code: 1660), as the chief financial officer in April 2016. Ms. Cheng had also been the company secretary and an executive director of Sanroc International Holdings Limited from April 2016 to April 2018 and from April 2017 to April 2018, respectively. Ms. Cheng has been an independent non-executive director of China Shenghai Food Holdings Company Limited (stock code: 1676) since July 2017, the shares of which are listed on the Main Board.

Ms. Cheng obtained a degree of Master of Arts in International Accounting at the City University of Hong Kong in November 2003, and was admitted as a member, and a fellow member, of the Association of Chartered Certified Accountants (the "**ACCA**") in December 2000 and December 2005, respectively. She was also admitted as an associate of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants (the "**HKICPA**")) since July 2003. Ms. Cheng has also been admitted as an associate of both The Hong Kong Institute of Chartered Secretaries (the "**HKICS**") and The Institute of Chartered Secretaries and Administrators (the "**ICSA**") in June 2017.

Mr. Liu Guodong (劉國棟), aged 42, was appointed as an independent non-executive Director on 21 October 2017. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Liu has more than 14 years of experience in the optical research field. He has been a professor of Jiangxi Science & Technology Normal University (江西科技師範大學) (formerly known as Jiangxi Science & Technology Normal College* (江西科技師範學院) since December 2004. He has served as the executive director (常務理事) and secretary-general of Optical Society of Jiangxi Province* (江西省光學學會) from 2004 until now. He served as a member of Biomedical Photonics Committee of China Optical Society* (中國光學學會生物醫學光子學專業委員會) from August 2009 to August 2013. He served as a member of Optoelectronic Technology Committee of China Optical Society* (中國光學學會光電技術專業委員會) from September 2007 to September 2011. From October 2006 to October 2010, Mr. Liu served as a member of editorial board for "Applied Optics". Mr. Liu served as the vice chairman of the National Optical Youth Academic Forum* (全國光學青年學術論壇) from December 2009 to December 2013.

Mr. Liu obtained a doctorate degree in optical science and engineering (光學工程) from Tsinghua University (清華大學) in the PRC in January 2004.

Mr. Xie Haidong (謝海東), aged 47, was appointed as independent non-executive Director on 21 October 2017. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Xie is currently an associate professor and a tutor for master students (碩士生導師) of Finance Department of School of Economics and Management of Nanchang University* (南昌大學經濟管理學院). He also serves as a director of the eighth board of Council of Finance of Jiangxi Province* (江西省金融學會). From January 2016 to October 2018, Mr. Tse served as the Head of Finance Department of School of Economics and Management of Nanchang University. From November 2009 to November 2012, Mr. Xie served as a special researcher of Development Research Center of the People's Government of Jiangxi Province* (江西省政府發展研究中心). From September 2010 to December 2016, Mr. Xie served as deputy director of Industrial Economics Research Institute of Central China Economic and Social Development Research Center of Nanchang University* (南昌大學中國中部經濟社會發展研究中心產業經濟研究所). From 2013 to 2015, Mr. Xie served as a consulting expert in relation to issuance of corporate bond for Reform and Development Commission of Jiangxi Province* (江西省發展與改革委員會). Prior to the aforesaid, he worked for enterprise investigation team of Statistics Bureau of Jiangxi Province* (江西省統計局) from January 1997 to December 2004. He was a business director of Jiangxi Branch of business department of Kunwu Jiuding Investment Management Co., Ltd.* (昆吾九鼎投資管理有限公司), a wholly-owned subsidiary of Jiangxi Zhong Jiang Real Estate Co., Ltd. (江西中江地產股份有限公司) (currently known as Kunwu Jiuding Investment Holdings Co., Ltd., 昆吾九鼎投資控股股份有限公司), whose shares are listed on Shanghai Stock Exchange (stock code: 600053) and principal business includes investment management and investment consulting, from February 2011 to October 2011. He was a guest faculty (訪問學者) in the department of finance at University of Notre Dame in the United States from August 2014 to May 2015.

Mr. Xie graduated from Nanchang University (南昌大學) in the PRC with a bachelor of economics degree in July 1994. He further earned a master of economics degree from Jiangxi University of Finance and Economics (江西財經大學) in the PRC in June 2002 and a doctorate degree in political economics from Shanghai University of Finance and Economics (上海財經大學) in the PRC in January 2007.

SENIOR MANAGEMENT

Mr. Zeng Haowen (曾浩文), aged 48, is the production director of the Group responsible for overseeing the overall production of the Group. Mr. Zeng has over 27 years of working experience in the field of cable and wire. Mr. Zeng joined the Group in February 2006 and first served as a manager of production department before he was promoted to the current position in March 2011. Prior to joining the Group, Mr. Zeng worked for Jiangxi Fan Ya Electric Wire and Cable Co., Ltd* (江西泛亞電線電纜有限公司) from August 1991 to January 2006, and he last served as the person in charge of the maintenance section of equipment department. Mr. Zeng obtained a diploma in mold design and manufacturing (模具設計與制造) from Jiangxi Science & Technology Normal University (江西科技師範大學) in the PRC in January 2013. He obtained the qualification as safety management associate* (安全管理人員) from Administration of Work Safety of Nanchang City (南昌市安全生產監督管理局) in August 2015. He also obtained the qualifications as electric welder (電焊工) and bench worker (鉗工) from Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國勞動和社會保障部) in April 2001 and May 2004 respectively.

Mr. Huang Guangnian (黃光年), aged 43, is the research and development director of the Group responsible for the research and development and quality management of the Group. He joined the Group in February 2007. Mr. Huang has over 17 years of working experience in the field of research and development. Prior to joining the Group, Mr. Huang worked in the technology department of Jiangxi Province Nanchang Telecommunications and Equipments Factory* (江西省南昌電信器材廠) from 2001 to 2006, and he was responsible for product development. He was awarded Second Prize of Outstanding New Product of Jiangxi Province for Year of 2003* (2003年江西省優秀新產品二等獎) by Economic and Trade Commission of Jiangxi Province* (江西省經濟貿易委員會) in 2004. Mr. Huang obtained a diploma in applied computer (計算機應用) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1997. He obtained the preliminary professional qualification as assistant engineer from Career Title Reform Leading Group Office of De An County* (德安縣職稱改革領導小組辦公室) in November 2000 and was appointed as assistant engineer of Jiangxi Province De An Cement Factory* (江西省德安水泥廠) from February 2001 to February 2004.

Ms. Zhou Zhi (周治), aged 42, is a chief business officer of business center of the Group responsible for overall sales strategies and planning of the Group. Ms. Zhou joined the Group in September 2004 and first served as a manager of sales department and was promoted to the current position in July 2012. Prior to joining the Group, Ms. Zhou worked as a sales officer at the grid information group of Taihao Technology Company Limited* (泰豪科技股份有限公司) from 1999 to August 2004, responsible for sales. Ms. Zhou obtained a diploma in engineering and civil communication* (工程與民用通訊) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1999.

Mr. Ye Fanxiu (葉反修), aged 57, is a procurement and logistics director of the Group responsible for overall procurement and logistics operation of the Group. Mr. Ye has over 29 years of experience in electronic industry. He joined the Group in September 2008, and he first served as procurement and logistics manager and was promoted to the current position in September 2013. Prior to joining the Group, he worked for Jiangxi Electronic Equipment Factory* (江西電子儀器廠) from October 1981 to July 2000, and he last served as chief controller of production division responsible for overseeing the production process of electronic equipment. Mr. Ye obtained a diploma in journalism from Jiangxi University (江西大學) in the PRC in July 1990. Mr. Ye is the brother-in-law of Ms. Wang and Mr. Zhao.

Ms. Lai Yeung Fun (黎樣歡), aged 40, is the chief financial officer and the company secretary of the Company. She is responsible for financial planning and reporting, internal control, and overall corporate secretarial matters of the Group. Ms. Lai has about 16 years of experience in financial management, accounting and auditing work. Ms. Lai graduated from the City University of Hong Kong with a bachelor of business administration degree in accountancy in November 2003. She was admitted as a member of Association of Chartered Certified Accountants in June 2009. She currently is a member of Hong Kong Institute of Certified Public Accountants.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Board presents to the shareholders of the Company this report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are production and sale of optical fiber cables, communication copper cables and structured cabling system products in the PRC. The principal activities of the subsidiaries are set out in note 33 to the consolidated financial statements. There was no significant change in the Group's principal activities during the Year.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 51.

The Board does not recommend the payment of a final dividend for the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had reserves amounted to approximately RMB112.1 million available for distribution as calculated based on the Company's share premium, other reserves and accumulated losses under applicable provisions of the Companies Law in the Cayman Islands. Details of the distributable reserves of the Company are set out in note 32 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year is set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

The review of the business of the Group during the Year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis", and the description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed, "Management Discussion and Analysis". The financial risk management objectives and policies of the Group are set out in note 39 to the consolidated financial statements. In addition, discussions on the Group's relationships with key stakeholders, environmental policies and performance and compliance with relevant laws and regulations which have a significant impact on the Group are as follows:

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

The Group is committed to establishing a close and caring relationship with its employees. The Group provides a fair and safe workplace, promotes diversity to the staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

Customers and suppliers

During the Year, the Group's five largest suppliers contributed approximately 51.7% of the Group's total purchase. The largest supplier has attributed to approximately 15.9% of the Group's total purchase. The Group sold products directly to customers which included the major telecommunication network operators in the PRC. The largest customer has accounted for approximately 45.3% of the total sales. The Group's sales came from top five customers has attributed to approximately 75.1% of the Group's total sale. Save as disclosed above, none of the Directors, their respective close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

The Group is able to build up close working relationship with its business partners and bring together the customers and suppliers to develop foundation technology. The Directors have frequent interactions with the customers regarding their feedbacks on the quality of our products which would then be reflected to the suppliers. Through this solid communication channel together with our experienced management team, the Directors believe that we are able to better understand our customers' needs as well as the market trend in order to make appropriate modifications or improvements to our products.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We believe that our business also depends on our ability to meet our customers' requirements in respect of safety, quality and environmental aspects. To meet our customers' requirements on safety, quality and environmental aspects, we have established and implemented various quality control measures in our operation process. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Directors confirmed that during the Year and up to the date of this annual report, the Group had obtained all the registrations and certifications required for its business and operations and had complied with the applicable laws and regulations in Hong Kong.

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao *(alias Zhao Baohua)*

Ms. Zhao Moge

Independent Non-Executive Directors

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

Information regarding directors' emoluments are set out in note 14 to the consolidated financial statements.

The Directors' biographical details are set out in the section headed "Directors and Senior Management's profile" in this annual report.

In accordance with article 83(3) of the Articles of Association of the Company (the "**Articles**"), any director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Pursuant to article 84(1) of the Articles, at every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, Ms. Zhao Moge and Ms. Cheng Shing Yan will retire from office as Directors at the forthcoming annual general meeting of the Company. Both of them being eligible will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company which is initially for a fixed term of 3 years, commencing from the Listing Date or from the date of appointment, and shall continue thereafter until terminated by not less than one month's written notice to the other party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company which is initially for a fixed term of 2 years, commencing from the Listing Date. The appointment is subject to termination under certain circumstances as stipulated in the said letter of appointment, and the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Each of the executive Directors and independent non-executive Directors is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Articles.

Apart from the foregoing, none of the Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the Year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against a liability incurred by Directors to a third party during the Year and up to the date of this annual report.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the Year.

DIVIDEND POLICY

The proposal of payment and the amount of dividends will be made at the discretion of the Board and will be depended on the Group's general business condition and strategies, cash flows, financial results and capital requirements, the interests of the shareholders, taxation conditions, statutory and regulatory restrictions and other factors that the Board deems relevant.

In addition, as the Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, some of which are incorporated in the PRC, the availability of funds to pay distributions to shareholders and to service the Group's debts depends on dividends received from these subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors or chief executive of the Company in the shares of the Company (the "**Shares**"), or any of the associated corporations (within the meaning of Part XV of the SFO) which shall have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) or shall be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or shall be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares

Name of director	Capacity/Nature of interest	Number of shares held (note 1)	Approximate percentage of shareholding
Ms. Wang Qiuping	Interest in a controlled corporation (note 2, 4)	408,375,000	37.13%
Mr. Zhao Xiaobao	Interest in a controlled corporation (note 3, 4)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.

2. These Shares are held by Arcenciel Capital Co., Ltd ("**Arcenciel Capital**"), which is wholly owned by Ms. Wang. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.

3. These Shares are held by Point Stone Capital Co., Ltd ("**Point Stone Capital**"), which is wholly owned by Mr. Zhao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

4. On 28 December 2018, the Company entered into a loan agreement ("**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") in relation to a loan with a total principal amount of up to HK$200.0 million (the "**Loan**"). Pursuant to the Loan Agreement, each of Ms. Wang and Mr. Zhao provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents.

   Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital and Point Stone Capital, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms. Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel Capital and Point Stone Capital, representing the entire issued shares of Arcenciel Capital and Point Stone Capital, respectively, in favour of the Lender.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had registered an interest or short position in the Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required 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 was taken or deemed to have under provision of the SFO) or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the Shares, the underlying Shares and debentures of the Company and its associated corporation within the meaning of Part XV of the SFO which were required to be disclosed pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein, were as follows:

Name of shareholder	Capacity/Nature of interest	Number of shares held (note 1)	Approximate percentage of shareholding
Arcenciel Capital Co., Ltd.	Beneficial owner (note 2, 4)	408,375,000	37.13%
Point Stone Capital Co., Ltd.	Beneficial owner (note 3, 4)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.

2. These Shares are held by Arcenciel Capital, which is wholly owned by Ms. Wang Qiuping. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.

3. These Shares are held by Point Stone Capital, which is wholly owned by Mr. Zhao Xiaobao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

4. On 28 December 2018, the Company entered into a loan agreement ("**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") in relation to a loan with a total principal amount of up to HK$200.0 million (the "**Loan**"). Pursuant to the Loan Agreement, each of Ms. Wang and Mr. Zhao provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents.

   Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital and Point Stone Capital, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms. Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel Capital and Point Stone Capital, representing the entire issued shares of Arcenciel Capital and Point Stone Capital, respectively, in favour of the Lender.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

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

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

CONNECTED TRANSACTIONS

The Group had not entered into any transactions constituted connected transactions (including continuing connected transactions) which is subject to the disclosure requirements under Chapter 14A of the Listing Rules during the Year.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the Year are set out in note 31 to the consolidated financial statements. The related party transactions of the Group do not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

COMPETING BUSINESS

Since the Listing Date to the date of this annual report, none of the Directors or the controlling shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules and pursuant to the Deed of Non-completion disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Board on the basis of their merit, qualifications and competence. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to eligible persons, details are set out under heading "Share Option Scheme" in this annual report and the section headed "Statutory and General Information – 15. Share option scheme" in the Prospectus.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit schemes are set out in note 10 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's turnover and purchases attributable to major customers and suppliers during the years ended 31 December 2018 and 2017 are as follows:

	For the year ended	
	31 December 2018	31 December 2017
Percentage of turnover		
From the largest customer	**45.3%**	55.2%
From the five largest customers in aggregate	**75.1%**	86.1%
Percentage of purchase		
From the largest supplier	**15.9%**	24.6%
From the five largest suppliers in aggregate	**51.7%**	64.8%

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest suppliers or customers.

EVENTS AFTER THE REPORTING PERIOD

From 31 December 2018 to the date of this annual report, save as disclosed in this annual report, the Board is not aware of any significant events that have occurred which require disclosure herein.

AUDITOR

The consolidated financial statements have been audited by BDO Limited, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

The Company has not changed its auditors during the Year and up to the date of this annual report.

On behalf of the Board

Wang Qiuping
Chairlady

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company of the Year.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. Save for the deviation as disclosed herein below, the Company has complied with the applicable code provisions as set out in the CG Code during the Year. The key corporate governance principles and practices of the Company are outlined in this report.

Chairman of the Board and Chief Executive Officer

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

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

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the shareholders of the Company at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

BOARD COMPOSITION

During the Year and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao *(alias Zhao Baohua)*

Ms. Zhao Moge

Independent Non-Executive Directors:

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

To the best knowledge of the Directors, save and except Ms. Wang Qiuping is the wife of Mr. Zhao Xiaobao and Ms. Zhao Moge is the daughter of Ms. Wang Qiuping and Mr. Zhao Xiaobao, there was no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

The biographies of the Directors are set out under the section headed “Directors and Senior Management’s Profile” of this annual report.

During the Year, the Company has been in compliance with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of the Board members will be immensely beneficial for the enhancement of the Company’s performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider the Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. The Board diversity policy sets out the approach towards achieving diversity on the Board. Pursuant to the Board diversity policy, all Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. As each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Directors’ Continuing Professional Development

Each Director was provided with the necessary training and information to ensure that he/she has proper understanding of the responsibilities under the Listing Rules and the applicable law, rules and regulations. The Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. The Company will continue to arrange suitable training and regular seminars to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time.

Appointment and Re-election of Directors

Each of the executive Directors has signed a service contract with the Company for a term of three years commencing from their respective date of appointment subject to termination as provided in the service contract.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years commencing from the Listing Date.

The appointments of executive Directors and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the articles of association of the Company (the "**Articles**") and the applicable Listing Rules. The procedures and process of appointment, re-election and removal of Directors are set out in the Articles.

In accordance with the article 84(1) of the Articles, at every annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to article 83(3) of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Meetings, General Meetings and Attendance of Directors

The Board is committed to holding regular board meetings at least four times a year at approximately quarterly intervals. The Group establishes an effective communication among all the Directors.

Since 1 January 2018 and up to the date of this annual report, the Company held eleven Board meetings, three Audit Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings. The attendance record of each Director at the abovementioned Board meetings and committee meetings has been set out below.

	Attendance/Number of				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*	11/11	N/A	N/A	N/A	1/1
Mr. Zhao Xiaobao *(alias Zhao Baohua)*	11/11	N/A	N/A	N/A	1/1
Ms. Zhao Moge	11/11	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Ms. Cheng Shing Yan	11/11	3/3	2/2	2/2	1/1
Mr. Liu Guodong	11/11	3/3	2/2	2/2	1/1
Mr. Xie Haidong	11/11	3/3	2/2	2/2	0/1

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

BOARD COMMITTEE

The Board has established the audit committee, the remuneration committee and the nomination committee and delegated various responsibilities to these committees, which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

Audit committee

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

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

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

Since 1 January 2018 and up to the date of this report, the Audit Committee had held three meetings, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the year ended 31 December 2018 and this annual report, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosure thereof.

Remuneration committee

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

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

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

Since 1 January 2018 and up to the date of this report, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

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

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

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

Since 1 January 2018 and up to the date of this report, the Nomination Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

BOARD DIVERSITY POLICY

The Board adopts a board diversity policy. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. Diversity of Board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional qualifications, industry and regional experience, skills, knowledge and length of service. All the Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that the appropriate accounting policies are selected and applied consistently. The reporting responsibilities of the Company's external auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 47 to 50 of this annual report. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The remuneration for the audit services provided by the Auditor to the Group during the Year amounted to approximately RMB0.9 million.

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities of the Board

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management, internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve the Group's business.

Risk Management and Assessment

The Company has established formal risk assessment criteria for the Group. Senior management identifies risks that potentially impact the key processes of the operations on an annual basis. Risks are scored and ranked by their impact on the business and the likelihood of their occurrence. Senior management assesses the effectiveness of the existing controls and formulates risk mitigating activities. Results of the annual risk assessment are reported to the Audit Committee, including amongst other things, significant risks of the Group and the appropriate control activities to mitigate and/or transfer the identified risks objectives.

Internal Control

The Company has established defined levels of responsibilities and reporting procedures. Controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are identified and assessed.

The Company has internal audit function which is primarily responsible for developing various internal control manuals and procedures, conducting reviews on the key operational processes and the related internal controls to ensure compliance with the Group's risk management and internal control policies and procedures.

During the Year, the Company has engaged an external consultant to conduct a review over the Group's internal controls over financial reporting, cash and bank management, fixed assets management and human resources and payroll management. Senior management has taken certain immediate remedial actions accordingly and had refined certain internal control procedures in due course. Issues identified were followed up for proper implementation.

Review of Risk Management and Internal Control Systems

The Audit Committee assists the Board in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committees are kept informed of significant risks that may impact on the Group's performance. For the Year, the Board considered the risk management and internal control systems of the Group to be effective and adequate. The Audit Committee has reviewed and is satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, and financial reporting function.

Procedures and Controls over Handling and Dissemination of Inside Information

The Company is aware of its obligation under relevant sections of the Securities and Futures Ordinance (the "**SFO**") and the Listing Rules. An Inside Information Policy has been established to lay down practical guidelines on definition of inside information, compliance and reporting, disclosure and announcement of inside information. All members of the Board, senior management, head of departments, and staff who are likely to possess inside information are strictly bound by this policy. Staff who have access to inside information is required to keep the unpublished inside information confidential until relevant announcement is made. Failure to comply with such requirements may result in disciplinary actions.

COMPANY SECRETARY

The role of the company secretary of the Company is performed by Ms. Lai Yeung Fun. The company secretary is responsible for facilitating the Board's communications among Board members, the Shareholders and the management of the Company and ensuring the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

Ms. Lai Yeung Fun has confirmed that she took not less than 15 hours of relevant professional training during the Year in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable the Shareholders and investors to make the informed investment decisions. To promote effective communication, the Company adopts a shareholders communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at www.potel-group.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

The Company seriously take care the Shareholders' interest to ensure that they are treated fairly and are able to exercise their Shareholders' rights effectively. Shareholders are entitled by the Articles of the Company and are also encouraged to participate in the Company's general meetings.

Convening of extraordinary general meeting

In accordance with the Articles, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an extraordinary general meeting (the "**EGM**") to be called by the Directors for the transaction of any business specified in such requisition. Such requisition shall be made in writing to the Board or the company secretary of the Company which is situated at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong. The EGM shall be held within two months after the deposit of such requisition. If the Directors fail to proceed to convene such meeting within 21 days of such deposit, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals by Shareholders at Shareholders' meeting

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of the proposal ("**Proposal**") with his/her/its detailed contact information at the Company's headquarters and principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's Hong Kong share registrar at their respective address. The request will be verified with the Company's Hong Kong share registrar and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the Hong Kong office of the Company at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENT

There is no significant change in the Company's constitutional documents during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Putian Communication Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**" or "**We**") are pleased to present the Environmental, Social and Governance ("**ESG**") report for the year ended 31 December 2018 (the "**Year**"). The ESG report published by the Company highlights the works in sustainable development and the performance in social governance of the Group for the Year.

Scope of the Report

The ESG report mainly covers the environmental and social policies of the Group's business in manufacturing communication cable and focuses on the performance in environmental and social aspects of Putian Cable Group Co., Ltd. ("**Putian Cable**"), a principal operating subsidiary of the Group. The key performance indicators disclosed during the Year focus on two plants of Putian Cable located in Jiangxi Province in the People's Republic of China (the "**PRC**"). For details of corporate governance, please refer to the Corporate Governance Report on pages 26 to 33 of this annual report of the Year.

Reporting Framework

The ESG report was prepared in accordance with Appendix 27 the "Environmental, Social and Governance Reporting Guide" under Main Board Listing Rules on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

INFORMATION AND FEEDBACK

For more information on the Company's environmental and corporate governance, please refer to the official website (www.potel-group.com) and this annual report of the Company. If you have any comments or suggestions on this ESG report, please feel free to contact us via email at info@potel-group.com.

STAKEHOLDERS ENGAGEMENT

The Group highly values the communication with its key stakeholders and takes the opinions from stakeholders as the basis for its formulation and implementation of short-term and long-term sustainability strategies. During the Year, stakeholder engagement and materiality assessment have been conducted, which enable us to understand the needs of stakeholders and identify our material topics regarding ESG.

Communication with Stakeholders

The Group promotes its approach and practices in ESG to stakeholders through effective communication channels, such as meetings, announcements, company websites and emails, as well as understands and takes corresponding measures in meeting stakeholders' requirements and expectations. The table below indicates our stakeholders, their requirements and expectations towards the Group, and the corresponding communication channels and responses.

Stakeholders	Requirements and Expectations	Means of Communication and Response
Government and Regulators	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Report information regularly • Meet the regulators regularly • Dedicated reports • Examinations and inspections
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General Meetings • Announcements • Email, telephone communication and company website • Dedicated reports • Site visits
Business Partners	• Operate with integrity • Equal rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity	• Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Calling for feedback
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection	• Communicate with local environmental department • Communicate with the locals • Reporting • Investigations and inspections
Industry	• Establishment of industry standards • Drive industry development	• Participate in industry forums • Visits and inspections
Employees	• Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Employee communication meetings • House journal and intranet • Employee mailbox • Training and workshop • Employee activity
Community and the Public	• Improve community environment • Participation in charity • Transparent information	• Company website • Announcements • Interview with media

Materiality Assessment

In the preparation of the ESG report, the Group commissioned an independent third-party consultant for the assistance in conducting the materiality assessment in a just and unbiased manner. The materiality assessment was carried out in the following three main phases:

i. Identifying potential material topics in respect of the Group's ESG performance that might affect its business or stakeholders as follows:

Environment and Resources	Employment and Labour Practices	Operating Practices	Community Investment
1. Greenhouse Gas Emission 2. Energy Management 3. Use of Raw Material and Packaging Materials 4. Research and Development 5. Compliance with Environmental Laws and Regulations	6. Employees' Remuneration and Benefits 7. Employees' Working Hour and Rest Period 8. Diversity and Equal Opportunity 9. Occupational Health and Safety 10. Training and Education 11. Child Labour and Forced Labor 12. Compliance with Labour Laws and Regulations	13. Supply Chain Management 14. Customer Health and Safety 15. Marketing and Labeling 16. Customer Privacy 17. Anti-corruption 18. Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services	19. Impact on the Community 20. Direct Economic Value Generated for Community

ii. Conducting a questionnaire survey to understand the views and expectations of the stakeholders on the Group's response to and disclosure of ESG issues;

iii. Prioritizing potential material topics based on questionnaires retrieved. After the analysis of the survey results along with the judgment by the management, the Group identifies the material topics and highlights them in the ESG report.

By analyzing the results of questionnaire survey with consideration to the actual business operation, the Group has identified 4 material topics which are disclosed in details in the ESG report.

Material Topics	Corresponding Sections
4. Research and Development	Environmental Protection Operating Practices Respect for Intellectual Property Rights and Privacy
12. Compliance with Labour Laws and Regulations	Value Our People
13. Supply Chain Management	Operating Practices Supplier Management
18. Compliance with Laws and Regulations Relating to the Provision and Use of Products and Services	Operating Practices

After reviewing the identified materials topics related to the ESG aspects, the importance of the ESG performance is recognized and that would be our ongoing process in reaching our future improvements.

ENVIRONMENTAL PROTECTION

As a communication cable manufacturer and a structured cabling system product provider, the Group protects the environment at the area where it operates while striving to develop business. The Group strictly abides by relevant laws and regulations concerning wastes, exhaust gases and wastewater, such as the Environmental Protection Law of the PRC and Energy Conservation Law of the PRC. The effort of Putian Cable in emission control can be reflected by its GB/T24001-2016/ISO14001:2015 Environmental Management System Certification Certificate obtained.

Putian Cable has continued to implement a comprehensive system of an emergency response plan and regularly conducted drills, in a bid to secure the well-being of the surrounding environment, as well as arousing the awareness of employees from each department in handling emergency issues. In case of an environmental pollution incident, Putian Cable will act and response by taking measures to minimize hazards and prevent deterioration of the incident in a timely manner. Looking forward, we will deliberate on the prevention of hazards and environmental pollution, and energy and resources conservation at the research and development stage, as well as consider environmentally friendly development and advocate the use of harmless and safe technology during product design, on the premise that the product quality is assured.

Emissions Treatment

Waste scrap and incoming packaging materials from the production process, and domestic waste are the major non-hazardous wastes of Putian Cable. Waste scrap and incoming packaging materials are recycled as far as possible, while domestic garbage is collected and processed collectively by the local environmental hygiene department. When there is hazardous waste produced, Putian Cable will engage qualified companies for further handling. By means of enhancing production process, Putian Cable utilizes the raw materials to the greatest extent to reduce waste scrap produced. The Group also encourages its employees to reuse stationery and to reduce the usage of disposable and non-recyclable products in respect of waste reduction. During the Year, there was no hazardous waste[1] produced by Putian Cable plants, while the data of non-hazardous waste is as follows, excluding recycled waste scrap such as metals and other scrap:

	2018	2017
Wastes		
Total Non-hazardous waste generated (tonnes)	**151**	66
Non-hazardous waste generated per square meter (tonnes/m^2)	**0.004**	0.003
Non-hazardous waste generated per revenue (kg/RMB'000)	**0.19**	0.11

Putian Cable does not produce or discharge any industrial wastewater in the production process, while domestic sewage generated will be pretreated in the septic tank before discharging into the municipal sewage pipe network. To raise the water saving awareness of employees, the Group has posted water saving notices in every lavatory and employees are reminded to turn off the faucet tight after use. The Group also conducts tests to put a stop to hidden leaking pipes and monitors water meters regularly to prevent leaking and wasting water. During the Year, the water consumption of Putian Cable plants is as follows:

	2018	2017
Water Consumption		
Total water consumption (m^3)	**14,018**	11,494
Water consumption per square meter (m^3/m^2)	**0.33**	0.49
Water consumption per revenue (m^3/RMB'000)	**0.02**	0.02

1 No hazardous waste was produced by Putian Cable plants in 2017 as well.

In respect of exhaust gas, no industrial exhaust gas is emitted from Putian Cable production process, while other exhaust gases arise from vehicles and oil fume from canteen. The oil fume from canteen will be emitted at high altitude after being treated by oil fume purifier. To reduce exhaust gas emissions and maintain the efficiencies of vehicles and oil fume purifiers, the Group conducts maintenance and examination on its vehicles regularly, and keeps the oil fume purifiers clean in the canteen. During the Year, the exhaust gases emitted by Putian Cable plants are as follows:

	2018	2017
Exhaust Gases		
Nitrogen oxides (kg)	**8.4**	28.9
Sulphur dioxide (kg)	**0.2**	0.5
Particulate matter (kg)	**0.6**	2.1

Resources Conservation

The Group keeps on endeavouring to promote sustainable development by adopting numerous measures on reducing resources consumption, as well as raising the environmental awareness of employees and encouraging them to take part in environmental protection. During the Year, Putian Cable has organized training on resources conservation and low-carbon lifestyle for its employees, introducing the meaning of resources conservation and measures that employees can practice to protect the environment.

To reduce electricity consumption and use energy efficiently, employees are encouraged to switch off idle lighting system, air conditioners and other electronics, to use as much sunlight for lightening purpose as possible, and to install motion sensors and independent lighting switches. Energy-efficient lighting and electronics such as air conditioners are adopted, and lighting appliances and filters for air conditioners are also cleansed regularly to improve energy efficiency. We also set the minimum temperature of air-conditioning system to around 26 degrees Celsius and seal the doors and windows to avoid the leakage of cool air. By means of regular checking and maintenance, the possibility of leakage of refrigerant has been reduced. During the Year, the energy consumption of Putian Cable plants is as follows:

	2018	2017
Energy Consumption		
Total energy consumption (MWh)	**6,551**	6,576
Energy consumption per square meter (MWh/m^2)	**0.15**	0.28
Energy consumption per revenue (MWh/RMB'000)	**0.008**	0.011
Purchased electricity (MWh)	**6,387**	6,210
Gasoline (MWh)	**156**	359
Liquefied petroleum gas (MWh)	**8**	7

Concerning the use of material, the Group conducts an evaluation on the usage of material to avoid overstock. During the Year, Putian Cable plants has used packaging materials including metal, wood, plastic, fiber fabric and paper, in which plastic and paper are used to pack products in both kilometers and pieces. Details of packaging materials use are as follows:

Optical Fiber Cables and Communication Copper Cables:

Types of Package material	2018 Total Amount (kg)	2018 Amount per Unit Produced (kg/km)	2017 Total Amount (kg)	2017 Amount per Unit Produced (kg/km)
Metal	**441,000**	**0.5**	411,000	0.6
Wood	**42,000**	**0.1**	41,000	0.1
Plastic	**1,819,000**	**2.0**	1,670,000	2.3
Fiber Fabric	**82,000**	**0.1**	81,000	0.2
Paper	**903,000**	**2.0**	780,000	2.2

Structured Cabling System Products:

Types of Package material	2018 Total Amount (kg)	2018 Amount per Unit Produced (kg/km)	2017 Total Amount (kg)	2017 Amount per Unit Produced (kg/km)
Plastic	**5,895,000**	**1.034**	5,002,000	0.993
Paper	**11,000**	**0.002**	10,000	0.002

Green Operation

As a responsible corporate citizen, the Group attaches great importance to sustainability development and strives to promote green operation among its employees, in a bid to reduce greenhouse gas emissions from its business operation. By posting reminders to advocate saving paper in office, the Group encourages employees to recycle and reuse paper, for example, using paper on both sides and using used paper to make records, as well as to utilize digital means for internal and external communication to replace paper circulation. The amount of paper used is also counted on a regular basis to monitor the usage. In addition, employees are encouraged to take public transport and use stairways. Conducting video conferences is suggested to substitute for non-essential overseas business trips, while direct flights are recommended for inevitable overseas business trips to reduce greenhouse gas emissions.

The greenhouse gas emissions of Putian Cable plants are composed of direct emissions from stationary combustion, use of vehicles and refrigerant, energy indirect emissions from purchased electricity, and other indirect emissions from electricity used for fresh water and sewage processing by local government and overseas business travel. During the Year, the greenhouse gas emissions of Putian Cable plants are as follows:

	2018	2017
Greenhouse Gases		
Total greenhouse gas emissions (tonnes CO_2e)	**3,432**	3,396
Greenhouse gas emissions per square meter (tonnes CO_2e/m^2)	**0.08**	0.15
Greenhouse gas emissions per revenue (tonnes CO_2e/RMB'000)	**0.004**	0.005
Scope 1 – Direct Emissions (tonnes CO_2e)	**62**	118
Scope 2 – Energy Indirect Emissions (tonnes CO_2e)	**3,358**	3,265
Scope 3 – Other indirect emissions (tonnes CO_2e)	**12**	13

VALUE OUR PEOPLE

The dedication and contributions of employees are essential to the long-term and sustainable development of the Group. We understand that well-established employment policies enable us to attract and retain talents. Apart from complying with the laws and regulations concerning employment, occupational safety and labour standards, including but not limited to the Labour Law of the PRC, Labour Contract Law of the PRC, Law of the PRC on the Prevention and Control of Occupational Diseases and Work Safety Law of the PRC, we strive to provide employees with a positive working environment and safeguard their well-being and health. During the Year, Putian Cable had organized staff outings as an acknowledgement for employees' contributions towards the Group.

Employees' Rights and Interests

The Group has established a defined human resources procedure to regulate and manage recruitment procedures, aiming to recruit appropriate talents in a fair manner with integrity. During the recruitment process, each job applicant is entitled to equal opportunity of the job offer, regardless of his/her age, gender, ethnicity, religious belief, marital status and disability, as long as his/her working experience, technical expertise and qualification are fulfilling the job requirements. Job applicant's identification documents are also required for age verification, so as to prevent misemploying child labour. With a view to safeguarding employees' rights and interests, we enter into employment contracts with employees before they report duties, which clearly define the job duties and working location to avoid forced labour. Upon receipt of resignation from an employee, we will conduct an exit interview to understand his/her reason for resignation.

As at 31 December 2018, there were total 296 employees from Putian Cable, who are all permanent staff. Detailed numbers of employees by gender and age group are as follows:

Number of Employees	2018
By Gender	
Female	92
Male	204
By Age Group	
Below 30 years old	67
Between 30 to 50 years old	178
Over 50 years old	51

Employees are valuable assets of the Group, therefore we provide our employees with attractive benefits. We strive to ensure the working hours and remuneration of employees are compliant with the requirements of relevant laws and regulations, in which our employees are entitled to compensation upon required overtime working, as well as the rights of taking rest and going on vacation. Meanwhile, according to the requirements of the local government, we also make contributions to the Social Insurances and Housing Provident Fund for our employees. Based on internal and external reference standards, annual review of our remuneration structure is taken place so as to maintain competitive remuneration offered to employees. We have also implemented appraisal system to evaluate the working performance of employees annually. Employees with outstanding performance may be rewarded with a pay rise or discretionary bonus in recognition of their contributions.

We have put a strong emphasis on providing trainings for employees in order to cater for the requirements of various positions. We have designed appropriate annual training programs for employees, including induction training, training courses related to production techniques and testing procedures, so as to enhance their technical and product knowledge as well as their understandings of quality standards in the industry and safety standards at the workplace. A clear career path is offered to our employees as well. Apart from the demands for positions, employees with an outstanding performance during annual appraisal may be given promotion opportunities, so that suitable talents will be recognized.

During the Year, the average training hours per employee and percentage of trained employees of Putian Cable are as follows:

	Average Training Hours per Employee (hours)	Percentage of Trained Employees (%)
By Employee Category		
Senior	8	100
Intermediate	8	100
Junior	2	100
By Gender		
Female	5	100
Male	5	100

Health and Safety

Work safety and personal safety of employees always come first during the business operation of the Group. We have continued to implement safety guidelines and organize educational activities for promoting the prevention of occupational diseases on a regular basis, such as reminding employees to keep the workplace clean at all time and explaining the laws and regulations in respect of occupational diseases and preventive measures to strengthen employees' safety awareness. Employees shall strictly comply with the working and operational procedures, and the laws and regulations in respect of occupational health and safety, so as to prevent accidents and occupational diseases consciously.

Putian Cable has obtained the certificate of GB/T28001-2011/OHSAS18001:2007 Occupational Health and Safety Management System Certification for its sound occupational health and safety management system. Putian Cable provides safety trainings which comprise of training about safety techniques and education on safety knowledge and awareness for employees, especially those may be exposed to occupational hazards. Prior to work, employees at the positions exposed to occupational hazards are required to undergo occupational diseases examination to ensure their health condition, while those at particular positions have to attend the operation safety assessment and acquire qualified licenses. Putian Cable carries out regular, surprise and special safety checks within the plants to discover any safety issue and take corrective actions accordingly for the prevention of incidents.

Moreover, hazardous chemicals are stored separately with clear labels, while personal protective equipment is provided to employees according to the needs of various positions. Designated personnel are assigned to monitor and ensure that employees wear appropriate personal protective equipment. Also, Putian Cable conducts regular checks on the performance and effectiveness of occupational diseases protective equipment and personal protective equipment to make sure proper function, as well as identifies the occupational hazards in workplace annually, so as to create a healthy and safe working environment for its employees. During the Year, there is no work-related injury or fatality occurred in Putian Cable.

OPERATING PRACTICES

The tenet of the Group is to provide products and services of high quality in meeting customers' expectations. On top of complying with relevant laws and regulations concerning product quality and safety, advertising, labelling and privacy, including but not limited to the Product Quality Law of the PRC, Copyright Law of the PRC, Patent Law of the PRC and Advertising Law of the PRC, we strictly manage supply chain and monitor the quality of raw materials and products. Besides, we have taken measures to protect intellectual property rights and customer's privacy to safeguard their rights and interests.

Supplier Management

To secure a stable supply of goods, the Group has maintained positive business relationship with suppliers. To this end, we continue to execute our supplier management system for the selection and evaluation of suppliers. Several factors are taken into account when selecting suppliers, including product quality, production capacity, delivery time and reputation in the market. Only qualified suppliers satisfying our requirements will be admitted into the list of qualified suppliers. We will then enter into contracts with suppliers, indicating the requirements regarding quality, logistics packaging and storage. Qualified suppliers are required to pass the annual assessments, which include reviewing their performances during the past year, and any suppliers with sub-standard performance will be removed from the list, thereby reducing the potential impacts of the supply chain on our products and services.

Quality Assurance

Rigorous quality control system of products is vital for offering products and services of high quality. To ensure the quality of the entire process from procurement, production, product inspection to after-sale customer services, we adhere to our quality control system which analyzes the factors that affecting our product quality, production efficiency and raw material utilization rates, thereby reducing any issues that may affect the product quality. Putian Cable has obtained the certificate for GB/T19001-2016/ISO9001:2015 Quality Management System.

Our quality control personnel conduct quality inspection on each batch of raw materials upon receipt. Only raw materials passed our tests are admitted into inventory, while defective items will be returned to the suppliers or be replaced. During the production process, we strictly follow the requirements of ISO9001:2015 standards for product quality control. Work-in-progress is tested after each production process, among which only those passing quality control tests are allowed to proceed to the next production stage. To ensure the quality and reliability of our products, finished products are tested in terms of structure as well as electrical and mechanical performances to ensure that the quality of products meets the requirements of customers. All work-in-progress and finished products are labeled for future traceability. In addition, we have specific packing and delivery instructions in place for each category of product to ensure the safety and quality of products during transportation. Upon the delivery of products, we will conduct on-site product inspection together with customers. In case of any unqualified products, reasons would be tracked and identified via labeling and production record keeping system. If the unqualified products are identified with quality issues, they will be reworked where possible and those unable to be processed will be treated as waste.

Customer Oriented

Catering for the needs of customers, extensive after-sales services are provided to customers, including technical training and exchange session, question and answer session respecting products, and regular communication. We typically offer a maintenance period of one to three years. Our employees are responsible for responding to our customers and conducting on-site examination upon receipt of any customer service request relating to the quality of products. Meanwhile, employees coordinate with technical team to diagnose and resolve the relevant technical issues. Our customer service team would respond to customer inquiries and service requests in a timely manner through various channels. Customer complaints are referred to relevant departments for handling, and customer service team would follow up with the relevant complaints closely until they are resolved. We appreciate that customers' comments are beneficial to our improvements, for which we also conduct annual customer surveys to collect feedback on products and services and better understand the changing needs of customers. Furthermore, all public production sales and market information shall be reviewed to make sure that there is no false or misleading information that may cause any misunderstanding of our customers.

Respect for Intellectual Property Rights and Privacy

The Group highly values the research and development and enhances the product design with reference to the developing trend of domestic and foreign technology and the market. We also understand the importance of protecting and enforcing our intellectual property rights. During the Year, we have registered 7 new patents in the PRC in terms of technologies relating to optical fiber cables, communication copper cable and our structured cabling system products. Being respectful for others' intellectual property rights, we strictly abide by the laws and regulations relating to intellectual property rights and conduct promotion and training for our employees on intellectual property rights. To safeguard our intellectual property rights, we require our employees to keep confidential for all information relating to our transactions, operation, management, technology and skills, etc during their employment and within two years after resignation. In addition, prior approval shall be obtained from us before other party intends to use our trademark, so as to avoid any infringement of the exclusive right of our trademarks.

Meanwhile, we place high value on our customers' privacy and thereby established a confidentiality system. Our employees shall sign up a confidentiality agreement before their employment to undertake that they will not disclose any customers' information to any third party. To safeguard the information security and protect the customers' privacy and data, our employees are required to use the designated anti-virus software and shall not use any unauthorized software or hardware or bring any company's information away from their workplace. Employees shall encrypt the files that contain sensitive information of the Group as well for better data protection.

Anti-Corruption

To uphold our business philosophy of being integrity and providing quality service, the Group is dedicated to training our employees with a working attitude of acting by law and being honest and trustworthy. Besides, we continue to follow the internal mechanism of preventing commercial bribery, for which, our core personnel and those individuals and units that have business relationships with us shall sign up an agreement to avert commercial bribery and corruption in any kinds and to regulate the behaviors of the parties, aiming to uphold the integrity and be self-disciplined. The Group has designated a department to be in charge of the supervision and management of the commitment mechanism in accordance with relevant laws and regulations concerning bribery, such as the Criminal Law of the PRC, thereby strictly prohibiting bribery and corruption from its source. Through conducting investigations and researches, we identify the characteristics of the misconduct of trading and commercial bribery, enabling us to adopt corresponding strategies and measures to deal with the potential risks arising from operation on a timely basis. Whistleblowing mailbox and hotline are set up for employees in reporting relevant commercial bribery and the identity of the whistle blower will be kept confidential.

At the same time, our employees should obey our requirements regarding conflict of interests and declare their possible conflict of interests, while being prohibited to solicit money or personal benefits by abusing their powers or convenience from their work, such as receiving gifts, money, loans, services or any compensation from units or individuals seeking to establish business relationship with us. In case of identifying any conducts or occurrences that may violate the requirements, employees are encouraged to report the event to his/her supervisor or via our established hotline or mailbox.

COMMUNITY INVOLVEMENT

The Group keeps on encouraging its employees to actively participate in social and charitable activities in the community, and provides disabilities with job opportunities so as to offer assistance to the vulnerable group.

CONTENT INDEX OF "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE"

ESG Indicators	Summary	Sections	Page
Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection Emissions Treatment	37 37
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection Resources Conservation	37 38
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection Green Operation	37 39

ESG Indicators	Summary	Sections	Page
Social			
Employment and Labour Practices			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Value Our People Employees' Rights and Interests	40 40
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Value Our People Health and Safety	40 41
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Value Our People Employees' Rights and Interests	40 40
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Value Our People Employees' Rights and Interests	40 40

ESG Indicators	Summary	Sections	Page
Operating Practices			
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.	Operating Practices Supplier Management	41 42
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices Quality Assurance Customer Oriented Respect for Intellectual Property Rights and Privacy	41 42 42 43
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of bribery, extortion, fraud and money laundering.	Operating Practices Anti-Corruption	41 43
Community			
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Involvement	43

TO THE MEMBERS OF PUTIAN COMMUNICATION GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Putian Communication Group Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 51 to 116, which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

REVENUE RECOGNITION

Refer to summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of revenue in note 7 to the consolidated financial statements.

The Group is principally engaged in the communication copper cables, optical fiber cable and structured cabling system products business.

Revenue represents income from productions and sales of communication copper cables, optical fiber cable and structured cabling system products sourced from Mainland China.

The Group enters into sale and purchase agreements with customers and in accordance with the terms of the agreements, revenue is recognised at the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods to the customers.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the recognition of revenue by management to meet specific targets or expectations.

OUR RESPONSE

Our procedures in relation to assess the recognition of revenue included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;
- Inspecting sale and purchase agreements, on a sample basis, to understand the terms of delivery and assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;
- Comparing sales records for a sample of sales transactions recorded during the year with relevant underlying documentation, which included sales invoices and good delivery notes with evidence of the customers' receipt of the goods and the date of receipt of the goods by the customers;
- Obtaining confirmations, on a sample basis, from major customers of the Group of sales transactions during the Year and, for unreturned confirmations, performing alternative procedures by comparing details of the transactions with relevant underlying documentation;
- Comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements and good delivery notes to determine whether the related revenue had been recognized in the appropriate financial period;
- Scrutinising all journals affecting revenue raised during the reporting period and comparing details of a sample of these journal, which met certain risk-based criteria, with relevant underlying documentation.

IMPAIRMENT ASSESSMENT OF TRADE AND BILLS RECEIVABLES

Refer to summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of trade and bills receivables in note 20 to the consolidated financial statements.

As at 31 December 2018, the Group had net trade and bills receivables amounting to approximately RMB229,710,000, after making loss allowance of approximately RMB2,410,000. It represents approximately 36.4% of the total assets of the Group and is considered quantitatively significant to the Group.

The Group's loss allowance is measured at an amount equal to lifetime expected credit losses ("ECLs") based on management's estimated loss rates for each category of trade and bills receivables. The estimated loss rates take into account the ageing of the trade and bills receivables, overdue balances, information regarding the ability and intent of the debtor to pay historical data on default rates.

We have identified impairment assessment of trade and bills receivables as a key audit matter due to considerable amount of judgement and estimates being required in conducting impairment assessment as mentioned in the forgoing paragraph.

OUR RESPONSE

Our procedures in relation to management's impairment assessment on trade and bills receivables included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECL;
- Assessing the trade and bills receivables aging report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- Comparing cash receipts from debtors subsequent to the financial year end relating to trade and bills receivable balances as at 31 December 2018 with bank statements and relevant underlying documentation on a sample basis; and
- Obtaining an understanding of the basis of management's approach to measuring ECLs of trade and bills receivable balances and assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rate are appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements 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 consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee 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 the directors, we determine those matters that were of most significance in the audit of the consolidated 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.

BDO Limited

Certified Public Accountants

Wan Che Bun
Practicing Certificate no. P05804

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**784,997**	621,281
Cost of sales		**(588,544)**	(466,975)
Gross profit		**196,453**	154,306
Other income	8	**371**	432
Selling and distribution expenses		**(34,484)**	(24,245)
Administrative expenses		**(50,916)**	(51,999)
Expected credit losses on financial assets		**(614)**	–
Finance costs	9	**(6,132)**	(5,142)
Profit before income tax expense	10	**104,678**	73,352
Income tax expense	11	**(19,685)**	(15,301)
Profit for the year		**84,993**	58,051
Profit for the year attributable to the owners of the Company		**84,993**	58,051
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,941)**	(2,129)
Other comprehensive income for the year, net of tax		**(1,941)**	(2,129)
Profit and total comprehensive income for the year		**83,052**	55,922
Earnings per share			
Basic and diluted	13	**RMB0.077**	RMB0.067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	119,513	106,940
Prepaid land lease payment	17	11,749	12,038
Prepayment for property, plant and equipment and intangible assets	18	60,257	–
Total non-current assets		191,519	118,978
Current assets			
Prepaid land lease payment	17	289	289
Inventories	19	70,607	72,868
Trade and bills receivables	20	229,710	171,779
Deposits, prepayment and other receivables		34,148	11,539
Restricted cash	21	16,166	50
Cash and cash equivalents	22	89,201	108,583
Total current assets		440,121	365,108
Total assets		631,640	484,086
Current liabilities			
Trade and bills payables	23	68,715	22,383
Contract liabilities	24	3,761	–
Accruals, deposits received and other payables		15,164	15,186
Amount due to a director	25	1,746	–
Current tax liabilities		3,843	3,139
Bank and other borrowings	26	43,469	61,834
Total current liabilities		136,698	102,542
Net current assets		303,423	262,566
Total assets less current liabilities		494,942	381,544
Non-current liabilities			
Other borrowings	26	80,843	51,732
Deferred tax liabilities	27	9,133	6,363
Total non-current liabilities		89,976	58,095
Total liabilities		226,674	160,637
NET ASSETS		404,966	323,449

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Share capital	28	**9,361**	9,361
Reserves	29	**395,605**	314,088
TOTAL EQUITY		**404,966**	323,449

The above consolidated financial statements should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 51 to 116 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf.

Wang Qiu Ping
Chairlady

Zhao Xiao Bao
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the company							
	Share capital RMB'000	Share premium* RMB'000 (note 29)	Capital reserves* RMB'000 (note 29)	Other reserves* RMB'000 (note 29)	PRC statutory reserve* RMB'000 (note 29)	Exchange reserve* RMB'000 (note 29)	Retained profits* RMB'000	Total equity RMB'000
Balance as at 1 January 2017	66	–	190	101,000	13,468	–	111,191	225,915
Profit for the year	–	–	–	–	–	–	58,051	58,051
Exchange differences arising on transaction of foreign operations	–	–	–	–	–	(2,129)	–	(2,129)
Total profit and other comprehensive income for the year	–	–	–	–	–	(2,129)	58,051	55,922
Repurchase of shares (note 28)	(66)	–	–	–	–	–	–	(66)
Issue of shares (note 28)	88	–	–	–	–	–	–	88
Appropriation to statutory reserves	–	–	–	–	8,150	–	(8,150)	–
Group reorganization	–	–	–	(97,972)	–	–	–	(97,972)
Shares issued pursuant to the capitalisation (note 28)	6,934	(6,934)	–	–	–	–	–	–
Shares issued pursuant to the public offer and placing (note 28)	2,339	152,063	–	–	–	–	–	154,402
Transaction costs attributable to the public offer and placing	–	(14,840)	–	–	–	–	–	(14,840)
Balance as at 31 December 2017 as originally presented	**9,361**	**130,289**	**190**	**3,028**	**21,618**	**(2,129)**	**161,092**	**323,449**
Initial application of HKFRS 9 (note 2.1D)	–	–	–	–	–	–	(1,535)	(1,535)
Restated balance as at 1 January 2018	9,361	130,289	190	3,028	21,618	(2,129)	159,557	321,914
Profit for the year	–	–	–	–	–	–	84,993	84,993
Exchange differences arising on transaction of foreign operations	–	–	–	–	–	(1,941)	–	(1,941)
Total profit and other comprehensive income for the year	–	–	–	–	–	(1,941)	84,993	83,052
Appropriation to statutory reserves	–	–	–	–	9,630	–	(9,630)	–
Balance as at 31 December 2018	**9,361**	**130,289**	**190**	**3,028**	**31,248**	**(4,070)**	**234,920**	**404,966**

* The total of these accounts as at the reporting dates represents "Reserves" in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Profit before income tax expense	**104,678**	73,352
Adjustments for:		
Depreciation of property, plant and equipment	**13,742**	11,017
Amortisation of prepaid land lease payment	**289**	289
Interest income	**(148)**	(218)
Finance costs	**6,132**	5,142
Loss on disposal of property, plant and equipment, net	**–**	593
Expected credit losses on financial assets	**614**	–
Operating profit before working capital changes	**125,307**	90,175
Increase in trade and bills receivables	**(60,341)**	(25,915)
Increase in deposits, prepayments and other receivables	**(22,609)**	(2,559)
Decrease/(increase) in inventories	**2,261**	(31,286)
Increase/(decrease) in trade and bills payables	**46,332**	(13,607)
(Decrease)/increase in accruals, deposits received and other payables	**(22)**	5,509
Increase in contract liabilities	**3,761**	–
Cash generated from operations	**94,689**	22,317
Income taxes paid	**(15,950)**	(12,770)
Net cash generated from operating activities	**78,739**	9,547
Cash flows from investing activities		
Purchase of property, plant and equipment	**(26,315)**	(20,283)
Prepayments for property, plant and equipment and intangible assets	**(60,257)**	–
Proceeds from sale of property, plant and equipment	**–**	117
Interest received	**148**	218
Net cash used in investing activities	**(86,424)**	(19,948)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Cash flows from financing activities		
Proceeds from borrowings	72,580	140,837
Repayment of borrowings	(61,834)	(75,270)
Restricted cash (pledged)/released	(16,116)	430
Increase in an amount due from/to a director	1,746	4,335
Interest paid	(6,132)	(5,142)
Issue of share capital	–	2,339
Allotment of shares	–	88
Repurchase of share capital	–	(66)
Group reorganisation	–	(97,972)
Share issued pursuant to the public offer and placing	–	152,063
Transaction costs attributable to the public offer and placing	–	(14,840)
Net cash (used in)/generated from financing activities	(9,756)	106,802
Net (decrease)/increase in cash and cash equivalents	(17,441)	96,401
Cash and cash equivalents at the beginning of the year	108,583	14,311
Effect of exchange rate changes on cash and cash equivalents	(1,941)	(2,129)
Cash and cash equivalents at the end of the year	89,201	108,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as "**the Group**").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

A. Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

B. Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

C. Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

D. HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 – Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

The following table summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves and retained earnings as at 1 January 2018:

	RMB'000
Retained earnings	
Retained earnings as at 31 December 2017	161,092
Increase in expected credit losses ("**ECLs**") in trade and bills receivables (note 2.1D(ii)(a))	(1,796)
Effect of deferred tax arose from increase in ECLs	261
Restated retained earnings as at 1 January 2018	159,557

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

D. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

Under HKFRS 9, except for certain trade and bills receivables (that the trade and bills receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

D. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following accounting policies would be applied to the Group's financial assets as follows:

Amortised cost — Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 RMB'000	Carrying amount as at 1 January 2018 under HKFRS 9 RMB'000
Trade, bills and other receivables	Loans and receivables (note 2.1D(ii)(a) and (b)))	Amortised cost	176,391	174,595
Restricted cash	Loans and receivables	Amortised cost	50	50
Cash and cash equivalents	Loans and receivables	Amortised cost	108,583	108,583

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognised ECLs for trade and bills receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

D. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECLs model

(a) Impairment of trade and bills receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowances as at 1 January 2018 was determined as follows for trade and bills receivables as follows:

As at 1 January 2018	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected credit loss rate (%)	1.1%	–	–	–	1.1%
Gross carrying amount (RMB'000)	171,779	–	–	–	171,779
Loss allowances (RMB'000)	1,796	–	–	–	1,796

The increase in loss allowances for trade and bills receivables upon the transition to HKFRS 9 as at 1 January 2018 was approximately RMB1,796,000. The loss allowances further increased for approximately RMB614,000 for trade and bills receivables during the year ended 31 December 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

D. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

(b) Impairment of other receivables

The Group conducted that the impact of ECLs on other receivables at amortised cost of the Group as at 1 January 2018 and during the year ended 31 December 2018 is insignificant.

As a result of above changes, the impact of the new HKFRS 9 impairment model in additional impairment allowance is as follows:

	RMB'000
Loss allowances as at 1 January 2018 under HKAS 39	–
Additional impairment recognised for trade and bills receivables	1,796
Loss allowances as at 1 January 2018 under HKFRS 9	1,796

(i) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(ii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position as at 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings/accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented as at 31 December 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

E. HKFRS 15 – Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 – Construction Contracts and HKAS 18 – Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of products.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact as at 1 January 2018
Optical fiber cables, communication copper cables and structured cabling system products	The Group has determined that for contracts with customers under sales of optical fiber cables, communication copper cables and structured cabling system products, as there may be one or more than one promises, which include the provision of warranty services, the Group has determined that the warranty is assurance type. For the performance obligation related to sales of optical fiber cables, communication copper cables and structured cabling system products, the Group determines that customers obtain control of the optical fiber cables, communication copper cables and structured cabling system products when the goods delivered to and have been accepted. Invoices are issued according to contractual terms and are usually payables within 1 year. Uninvoiced amounts presented as contract assets. Consideration received in advance from customers for obligation to transfer the optical fiber cables, communication copper cables and structured cabling system products are presented as contract liabilities.	HKFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of HKFRS 15, the Group has made reclassification from accruals, deposits received and other payables to contract liabilities since under HKFRS 15, there is any obligation to transfer goods to a customer for which the entity has received consideration from a customer, an entity should recognise a contract liability.

F. Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.1 Adoption of new/revised HKFRSs – effective 1 January 2018 *(Continued)*

G. Amendments to HKAS 40 – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

H. HK(IFRIC)–Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

2.2 New/revised HKFRSs that have been issued but are not yet effective

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

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2021

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.2 New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

A. HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 – Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

B. HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 – Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

C. Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.2 New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

D. Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

E. Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

F. Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

G. Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

2.2 New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

H. HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

I. Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

3.3 Functional and presentation currency

The functional currency of the Company is Renminbi ("**RMB**"), which is same as the presentation currency of the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("**the Group**"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

4.3 Property, plant and equipment

Owner-occupied leasehold land and buildings are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of properties revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the properties revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.3 Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings and structures	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Leasehold improvement	Over lease term
Furniture, fixtures and office equipment	3 – 5 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount. The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.4 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Prepaid land lease payment

(i) Acquired prepaid land lease payment

Prepaid land lease payment acquired separately is initially recognised at cost. The cost of prepaid land lease payment acquired in a business combination is fair value at the date of acquisition. Subsequently, prepaid land lease payment with finite useful lives is carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Prepaid land lease payment with indefinite useful lives is carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Land use right – 50 years

(ii) Impairment

Prepaid land lease payment with finite lives are tested for impairment when there is an indication that an asset may be impaired. Prepaid land lease payment with indefinite useful lives and prepaid land lease payment not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Prepaid land lease payment is tested for impairment by comparing their carrying amounts with their recoverable amounts (note 4.13).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

4.6 Financial Instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments (accounting policies applied from 1 January 2018) *(Continued)*

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("**FVTPL**"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments (accounting policies applied from 1 January 2018) *(Continued)*

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade and bills receivables, contract assets and financial assets at amortised cost. The ECLs are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and bills receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments (accounting policies applied from 1 January 2018) *(Continued)*

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

<u>Financial liabilities at amortised cost</u>

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments (accounting policies applied from 1 January 2018) *(Continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4(k)A(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.7 Financial Instruments (accounting policies applied until 31 December 2017)

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor’s financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.7 Financial Instruments (accounting policies applied until 31 December 2017) *(Continued)*

(ii) Impairment loss on financial assets (Continued)

Loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liability

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.7 Financial Instruments (accounting policies applied until 31 December 2017) *(Continued)*

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.8 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.9 Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception./Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Optical fiber cables, communication copper cables and structured cabling system products

Customers obtain control of the optical fiber cables, communication copper cables and structured cabling system products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the optical fiber cables, communication copper cables and structured cabling system products. There is generally only one performance obligation. Invoices are usually payable within 180-360 days.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.9 Revenue recognition (accounting policies applied from 1 January 2018) *(Continued)*

Optical fiber cables, communication copper cables and structured cabling system products (Continued)

Some of the Group's contracts with customers from the sale of optical fiber cables, communication copper cables and structured cabling system products provides customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refund in cash. The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.

Revenue recognition (accounting policies applied until 31 December 2017)

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Contract liabilities (accounting policies applied from 1 January 2018)

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contract costs (accounting policies applied from 1 January 2018)

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.10 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 – Investment Property. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.11 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.11 Foreign currency *(Continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

4.12 Employee benefits

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

4.13 Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model; and
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4.14 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.15 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.16 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises prepaid land lease payment in accordance with the accounting policies stated in notes 4.3 and 4.5 respectively. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of each reporting period.

(ii) Impairment of trade, bills and other receivables

The impairment of trade, bills and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and impairment losses in the periods in which such estimate has been changed.

(iii) Estimates of current tax and deferred tax

The Group is subject to income taxes of different jurisdictions. Significant judgement is required on the interpretation of tax laws and legislations during the estimation of the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognized liabilities for tax based on estimates of assessment of the tax liability due. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income tax and deferred income tax provisions, where applicable, in the period in which such determination is made.

Deferred tax assets are recognized for all unused tax losses and unabsorbed depreciation allowances to the extent that it is probable that future taxable profits would be available against which the losses and other deductible temporary differences could be utilized. Significant management judgement is required to determine the amount of deferred tax assets that could be recognized, based on the likely timing and extent of future taxable profits together with future tax planning strategies.

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group reportable segments are managed separately as each business offers different and requires different business strategies.

The Group divided the cable products into three main categories: (a) Optical Fiber Cables; (b) Communication Copper Cables; and (c) Structured Cabling System Products:

(a) Optical Fiber Cables

Optical fiber cables are either single or bundled optical fibers, which are solid strands of hair-thin, high quality glass, coated with sheathing material. The sheathing material varies to suit different installation conditions, such as indoor installation, direct burial, duct or underwater installations, to protect the optical fibers from pressure and the surroundings and to ensure transmission quality and durability of the optical fiber cables. Strength materials such as steel or glass fibers are also used in the production of optical fiber cables to enhance their strength and durability. The Group primarily produce and sell stranded outdoors optical fiber cables, central-tubed optical fiber cables and butterfly optical fiber cables, with different production processes. Its optical fiber cables are widely used in the construction of telecommunications network, railway communication network, and broadcast and television networks. The wide range of the Group's optical fiber cables can satisfy various complicated installation conditions, including but not limited to direct burial, duct, aerial or underwater installations. The Group's communication copper cable products are sold to independent third parties and primarily to major telecommunications network operators in the PRC.

(b) Communication Copper Cables

Communication copper cables are conductive copper wires bundled in insulation and sheathing materials, through which electric signals are transmitted. The insulation and sheathing materials differ depending on the environment in which the cables are to be deployed. For example, communication copper cables for outdoor applications generally need to be protected from challenging environmental conditions, such as contamination from water, temperature changes, construction works or animal damages. The Group primarily produces and sells four categories of communication copper cables, namely, data cables, local telephone cables, telephone and broadband wires, and power cables. Data cables are used both indoors and outdoors with two to 100 cores and have received certifications from the TLC Certification Center and Underwriter Laboratories Inc. under various standards. Local telephone cables are used in urban and suburban areas to transmit audio signals in analog and digitized forms. Telephone and broadband wires are used in indoor telephone wiring systems to connect end-users to the local telephone network and transmit audio signals, as well as for broadband wiring to transmit digital signals. Power cables include flame retardant flexible communication cables and security and alarm cables. Flame retardant flexible communication cables are used in the communication server rooms and power distribution systems at communication stations and high-rise buildings. Security and alarm cables are used in security and alarm systems to transmit video, audio and control signals and other data. The Group's communication copper cable products are sold to independent third parties and primarily to major telecommunications network operators in the PRC.

6. SEGMENT REPORTING *(CONTINUED)*

(c) Structured Cabling System Products

Structured cabling system products are components of the wiring system, including optical fiber-based cabling system and copper-based cabling system, within buildings for information transmission. Structured cabling system products include optical and copper jumper wires and relevant connection and distribution components. Optical and copper jumper wires are primarily by assembling internally produced communication copper cables or optical fiber cables produced and relevant connection parts from independent third party suppliers. The Group also sell connection and distribution components, such as distribution frames, wiring closets, audio and data modules and faceplate and few optical and copper jumper wires procured from independent third-party suppliers. A structured cabling system plays a key role in deepening the engagement of information technology and other industries, aligning with the "Internet Plus" concept. It is also an important basis for the realization of intelligent building, smart home, and big data storage. The downstream markets of structured cabling system products are flourishing. The Group's structured cabling system products are sold to independent third parties to both major telecommunications network operators and various non-operator customers in the PRC.

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

(i) Segment Revenue and Results

	Year ended 31 December 2018			
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	Total RMB'000
Revenue from the Group's external customers	325,338	367,905	182,052	875,295
Inter-segment revenue	(9,178)	(77,309)	(3,811)	(90,298)
Reportable segment revenue	316,160	290,596	178,241	784,997
Reportable segment profit	50,599	36,098	48,459	135,156

6. SEGMENT REPORTING *(CONTINUED)*

(i) Segment Revenue and Results *(Continued)*

	Year ended 31 December 2017			
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	Total RMB'000
Revenue from the Group's external customers	246,557	278,361	124,163	649,081
Inter-segment revenue	(2,965)	(23,468)	(1,367)	(27,800)
Reportable segment revenue	243,592	254,893	122,796	621,281
Reportable segment profit	41,937	28,903	38,701	109,541

(ii) Reconciliation of profit or loss

	2018 RMB'000	2017 RMB'000
Segment results	**135,156**	109,541
Other income	**371**	432
Unallocated expenses	**(24,717)**	(31,479)
Finance costs	**(6,132)**	(5,142)
	104,678	73,352
Income tax expense	**(19,685)**	(15,301)
Profit after taxation	**84,993**	58,051

(iii) Geographic information

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

6. SEGMENT REPORTING *(CONTINUED)*

(iv) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Group's revenue during the year then ended, is set out below:

	2018 RMB'000	2017 RMB'000
Customer A	**355,708**	342,670
Customer B	**195,369**	175,602

The two major customers purchased goods from all segments during the years. Other than Customer A and Customer B, no any other single external customer amounts to 10% or more of the Group's revenue.

7. REVENUE

The principal activities of the Group are the manufacturing and sale of optical fiber cables, communication copper cables and structured cabling system products. Further details regarding the group's principal activities are disclosed in note 6.

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

	2018 RMB'000	2017 RMB'000
Optical fiber cables	**316,160**	243,592
Communication copper cables	**290,596**	254,893
Structured cabling system products	**178,241**	122,796
	784,997	621,281
Geographical markets:		
Mainland China	**784,997**	621,281
Timing of revenue recognition		
Goods transferred at a point in time	**784,997**	621,281

Note: The Group has initially applied HKFRS 15 using the cumulative offset method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

7. REVENUE *(CONTINUED)*

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

	31 December 2018 RMB'000	1 January 2018 RMB'000
Trade and bills receivables	229,710	169,983
Contract liabilities (note 24)	3,761	3,080

8. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Other income:		
Bank interest income	148	218
Exchange gains, net	–	111
Government grants (note)	–	80
Others	223	23
	371	432

Note: Government grants mainly comprised of subsidies related to the Group's innovation projects and patent application. There are no unfulfilled conditions or contingencies related to these grants.

9. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest charge on bank and other borrowings	6,132	5,147
Less: Amount capitalised	–	(5)
	6,132	5,142

10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2018 RMB'000	2017 RMB'000
Auditors' remuneration	**915**	675
Amortisation of prepaid land lease payment (note i)	**289**	289
Cost of inventories recognised as expenses	**540,114**	427,753
Research and development expenditure	**24,837**	18,664
Depreciation of property, plant and equipment	**13,742**	11,017
Loss on disposal of property, plant and equipment	**–**	593
Operating lease rental in respect of:		
– Rented premises	**1,787**	1,058
Expected credit losses on financial assets	**614**	–
Listing expenses	**–**	16,085
Staff costs (including directors' emoluments – note 14):		
– Salaries and wages	**35,489**	24,432
– Defined contribution scheme (note ii)	**5,425**	3,822
	40,914	28,254

Note i: Amortisation of prepaid land lease payment for the year then ended was included in "Administrative expenses" on the face of the consolidated statements of profit or loss and other comprehensive income.

Note ii: The Group participates in a central pension scheme operated by the local municipal government (the "**Scheme**"), whereby the subsidiary of the Group in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

11. INCOME TAX EXPENSE

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

	2018 RMB'000	2017 RMB'000
Current tax – Hong Kong Profits Tax		
Tax for the current year	–	–
Current tax – PRC EIT		
Tax for the current year	16,654	13,593
Over-provision for prior year	–	(646)
	16,654	12,947
Deferred tax		
Charge to profit or loss for the year (note 27)	3,031	2,354
	19,685	15,301

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2018 (2017: Nil).

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

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

Putian Cable Group Co., Ltd, one of the subsidiaries of the Company, is entitled to a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017, as it was awarded high-technology status by tax authority.

11. INCOME TAX EXPENSE *(CONTINUED)*

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000
Profit before income tax expense	**104,678**	73,352
Tax calculated at the applicable tax rate of 25% (2017: 25%)	**26,170**	18,338
Effect of different tax rates	**(11,227)**	(9,595)
Tax effect of expenses not deductible for tax purposes	**580**	3,684
Effect attributable to the additional qualified tax deduction relating to research and development costs	**(1,829)**	(1,402)
Deferred tax on undistributed earnings of PRC subsidiaries	**3,031**	2,354
Effect of tax losses not recognised	**2,934**	1,262
Others	**26**	660
Income tax expense	**19,685**	15,301

12. DIVIDENDS

No dividend was paid or proposed during the year of 2018, nor has any dividend been proposed since the end of the Year up to the date of this annual report (2017: Nil).

There are no income tax consequences related the payment of dividends by the Company to its shareholders.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB84,993,000 (2017: approximately RMB58,051,000) and the weighted average of 1,100,000,000 shares (2017: 862,520,000 shares) in issue during the year, calculated as follows:

	2018 RMB	2017 RMB
Earnings per share		
Basic earnings per share	**0.077**	0.067
Number of share		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**1,100,000,000**	862,520,000

There were no potential dilutive ordinary shares during the years ended 31 December 2018 and 2017 respectively and, therefore, diluted earnings per share are the same as the basic earnings per share.

14. DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed as follows:

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2018					
Chairlady					
Wang Qiu Ping	702	436	621	73	1,832
Executive directors					
Zhao Xiao Bao	702	441	621	73	1,837
Zhao Moge	583	71	199	31	884
Independent non-executive directors					
Cheng Shing Yan	120	–	–	–	120
Liu Guodong	120	–	–	–	120
Xie Haidong	120	–	–	–	120
	2,347	948	1,441	177	4,913

	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2017					
Chairlady					
Wang Qiu Ping	–	323	36	28	387
Executive directors					
Zhao Xiao Bao	–	312	36	28	376
Zhao Moge	–	136	13	29	178
Independent non-executive directors					
Cheng Shing Yan	17	–	–	–	17
Liu Guodong	17	–	–	–	17
Xie Haidong	17	–	–	–	17
	51	771	85	85	992

Note:

(i) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2018 (2017: Nil). No directors waived or agreed to waive any emoluments during the year ended 31 December 2018 (2017: Nil).

15. THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2017: two) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining two (2017: three) individuals were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,099**	904
Discretionary bonuses	**254**	28
Defined contribution scheme	**37**	46
	1,390	978

Their emoluments were within the following bands:

	2018 Number of individuals	2017 Number of individuals
RMB1,000,000 to RMB2,000,000	**1**	–
Nil to RMB1,000,000	**1**	3

The emoluments paid or payable to members of senior management were within the following bands:

	2018 Number of individuals	2017 Number of individuals
RMB1,000,000 to RMB2,000,000	**1**	–
Nil to RMB1,000,000	**4**	5

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Buildings and structures RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST							
As at 1 January 2017	25,136	35,617	77,242	1,730	3,193	92	143,010
Additions	2,918	38	16,199	438	230	460	20,283
Transfer to Buildings and structures	(28,054)	27,612	–	–	–	442	–
Disposals	–	–	(2,929)	–	–	–	(2,929)
As at 31 December 2017 and 1 January 2018	**–**	**63,267**	**90,512**	**2,168**	**3,423**	**994**	**160,364**
Additions	**572**	**2,351**	**16,105**	**–**	**6,540**	**747**	**26,315**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**
As at 31 December 2018	**572**	**65,618**	**106,617**	**2,168**	**9,963**	**1,741**	**186,679**
ACCUMULATED DEPRECIATION							
As at 1 January 2017	–	9,314	31,889	1,037	2,345	41	44,626
Depreciation	–	2,348	7,811	360	407	91	11,017
Disposals	–	–	(2,219)	–	–	–	(2,219)
As at 31 December 2017 and 1 January 2018	**–**	**11,662**	**37,481**	**1,397**	**2,752**	**132**	**53,424**
Depreciation	**–**	**3,090**	**8,800**	**279**	**1,316**	**257**	**13,742**
As at 31 December 2018	**–**	**14,752**	**46,281**	**1,676**	**4,068**	**389**	**67,166**
NET BOOK VALUE							
As at 31 December 2018	**572**	**50,866**	**60,336**	**492**	**5,895**	**1,352**	**119,513**
As at 31 December 2017	–	51,605	53,031	771	671	862	106,940

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

17. PREPAID LAND LEASE PAYMENT

	Land use rights RMB'000
Cost	
As at 31 December 2017, 1 January 2018 and 31 December 2018	14,435
Amortisation	
As at 1 January 2017	1,819
Amortisation	289
As at 31 December 2017 and 1 January 2018	2,108
Amortisation	289
As at 31 December 2018	2,397
Net book value	
As at 31 December 2018	12,038
As at 31 December 2017	12,327

	2018 **RMB'000**	2017 RMB'000
Analysed for reporting purpose as:		
Non-current	**11,749**	12,038
Current	**289**	289
	12,038	12,327

18. PREPAYMENT FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Prepayment for property, plant and equipment	56,861	–
Prepayment for intangible assets	3,396	–
	60,257	–

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	29,798	24,332
Finished goods	40,809	48,536
	70,607	72,868

20. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	231,799	171,724
Bills receivables (note)	321	55
	232,120	171,779
Less: Loss allowances	(2,410)	–
	229,710	171,779

Note: Bills receivables represented outstanding commercial acceptance bills.

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

	2018 RMB'000	2017 RMB'000
Within 1 month	63,231	62,679
More than 1 month but within 2 months	61,384	58,586
More than 2 months but within 3 months	39,281	25,577
More than 3 months but within 6 months	60,059	20,976
More than 6 months but within 1 year	5,344	3,961
More than 1 year	411	–
	229,710	171,779

The Group recognised expected credit losses based on the accounting policy stated in note 4.6(ii).

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The credit term granted by the Group to its trade customers is normally 181 days to 360 days. Further details on the Group's credit policy are set out in note 39(b).

The movement in the loss allowances for trade and bills receivables is as follows:

	2018 RMB'000
Carrying amount as at 1 January 2018	–
Effect of adoption of HKFRS 9	1,796
Carrying amount as at 1 January 2018 (restated)	1,796
Expected credit losses recognised	614
Carrying amount as at 31 December 2018	2,410
Carrying amount as at 31 December 2017	–

21. RESTRICTED CASH

Bank deposits have been pledged as security for bills payables (note 23). The restricted cash will be released upon the settlement of relevant bills payables.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balance with banks. Renminbi is not freely convertible to other currencies as such amounts were held by the subsidiaries located in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies only through banks that are authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	36,399	22,383
Bills payables	32,316	–
	68,715	22,383

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

	2018 RMB'000	2017 RMB'000
Within 1 month	27,534	21,652
More than 1 month but within 2 months	9,427	417
More than 2 months but within 3 months	760	177
More than 3 months but within 6 months	30,450	39
More than 6 months but within 1 year	382	55
More than 1 year	162	43
	68,715	22,383

The trade and bills payables are short-term and hence the carrying values of the Group's trade and bills payables are considered to be a reasonable approximation of fair value.

The following is an analysis of trade and bills payables by age based on due date.

	2018 RMB'000	2017 RMB'000
Neither past due	68,524	22,181
Overdue for less than 1 year	191	202
	68,715	22,383

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

24. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities arising from:			
Sale of goods	**3,761**	3,080	–
	3,761	3,080	–

	2018 RMB'000
Balance as at 1 January	**3,080**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year (note 7)	**(3,080)**
Increase in contract liabilities as a result of billing in advance of sales of goods (note 7)	**3,761**
Balance as at 31 December	**3,761**

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Accruals, deposits received and other payables" have been reclassified to "contract liabilities".

25. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

26. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Current		
Secured bank borrowings:		
Repayable within one year (i) (ii)	9,982	61,834
Unsecured bank borrowings:		
Other borrowings – due in June 2019 (iii)	33,487	–
	43,469	61,834
Non-current		
Unsecured borrowings:		
Other borrowings – due in June 2019 (iii)	–	51,732
Secured borrowings:		
Other borrowings – due in December 2020 (iv)	80,843	–
	80,843	51,732

Notes:

(i) The bank borrowings with effective interest rate is 5.66% (2017: 6.32%) per annum.

(ii) Legal charges over the personal properties owned by substantial shareholders of the Group of approximately RMB10.0 million (2017: Nil) for the year ended 31 December 2018.

(iii) The Group entered into two loan agreements with independent third parties on 29 July 2017, with the total loan in a principal amount of RMB50.0 million with a fixed interest rate of 8.16% per annum and the Group shall repay the loans in one instalment and pay the accrued interest on the maturity date, 30 June 2019. The interest started to accrue on 31 July 2017, the date on which the Group received the proceeds of the loans. Under both loan agreements, the Group undertakes that it shall not change the use of the loan proceeds without creditors' prior approval and guarantees that the loan is senior in right of payment to all other unsecured creditors of the Group immediately after the disposal of the secured assets in the event of cross default. In October 2018 and November 2018, the Group settled other borrowings of RMB12.0 million and RMB8.0 million respectively.

(iv) On 28 December 2018, the Company as a borrower entered into a loan agreement ("**Loan Agreement**") with AVIC Capital International Holdings Co., Limited (the "**Lender**") in relation to a loan with a total principal amount of up to HK$200,000,000 (the "**Loan**"). The first batch of loan of HK$100,000,000 drawn on 28 December 2018. According to the Loan Agreement, unless the Company and the lender agree to extend for further one year, the Loan shall be fully repaid by the Company on 27 December 2020. Pursuant to the Loan Agreement, each of Ms. Wang Qiuping and Mr. Zhao Xiaobao, both being the controlling shareholders of the Company, provided a personal guarantee in favour of the Lender to secure, among others, the due and punctual observance and performance by the Company under the Loan Agreement and other ancillary documents. Pursuant to the Loan Agreement and in order to secure the Company's obligations under the Loan, Arcenciel Capital Co., Ltd and Point Stone Capital Co., Ltd, both being the immediate controlling shareholders of the Company, charged 408,375,000 ordinary shares of the Company and 358,875,000 ordinary shares of the Company, representing 37.125% and 32.625% of the total issued shares of the Company, respectively at the date of the Loan Agreement, in favour of the Lender. In addition, Ms. Wang and Mr. Zhao charged 10,000 ordinary shares of each of Arcenciel and Point Stone, representing the entire issued shares of Arcenciel and Point Stone, respectively, in favour of the Lender.

26. BANK AND OTHER BORROWINGS *(CONTINUED)*

As at 31 December, total current and non-current bank loans were scheduled to repay as follows:

	2018 RMB'000	2017 RMB'000
On demand or within one year	9,982	61,834

As at 31 December, total current and non-current other borrowings were scheduled to repay as follows:

	2018 RMB'000	2017 RMB'000
On demand or within one year	33,487	–
More than one year, but not exceeding two years	80,843	51,732
More than two years, but not exceeding five years	–	–
After five years	–	–
	114,330	51,732

Notes: *(continued)*

(v) The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

(vi) Other borrowing with AVIC Capital International Holdings Co., Limited is subject to the fulfilment of covenants relating to certain of the Group's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

(vii) The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that AVIC Capital International Holdings Co., Limited will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 39(c). As at 31 December 2018, none (2017: none) of the covenants relating to drawn down facilities had been breached.

27. DEFERRED TAX LIABILITIES

	Allowance for doubtful debts RMB'000	Withholding tax on undistributed earnings RMB'000	Total RMB'000
As at 1 January 2017	–	4,009	4,009
Charge for the year (note 11)	–	2,354	2,354
As at 31 December 2017 and 1 January 2018	**–**	**6,363**	**6,363**
Effect on adoption of HKFRS 9	**(261)**	**–**	**(261)**
As at 1 January 2018 (restated)	**(261)**	**6,363**	**6,102**
Charge for the year (note 11)	**(47)**	**3,078**	**3,031**
As at 31 December 2018	**(308)**	**9,441**	**9,133**

As at 31 December 2018, the Group had unused tax losses of approximately RMB12,518,000 (2017: approximately RMB5,317,000), available to offset against future profits. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams.

The unrecognised tax losses will expire in the following years:

	2018 RMB'000	2017 RMB'000
2018	**745**	745
2019	**833**	833
2020	**827**	827
2021	**21**	21
2022	**2,891**	2,891
2023	**7,201**	–
	12,518	5,317

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

28. SHARE CAPITAL

	Notes	2018 Number '000	2018 Amount RMB'000	2017 Number '000	2017 Amount RMB'000
Authorised:					
Initial authorised share capital upon incorporation	(i)	**10**	**66**	10	66
Repurchase of share	(ii)	**(10)**	**(66)**	(10)	(66)
Subdivision of share capital	(ii)	**38,000**	**336**	38,000	336
Increase in share capital upon capitalisation	(iv)	**2,962,000**	**25,198**	2,962,000	25,198
		3,000,000	**25,534**	3,000,000	25,534
Issued and fully paid:					
As at 1 January	(i)	**1,100,000**	**9,361**	10	66
Repurchase of share	(ii)	**–**	**–**	(10)	(66)
Allotment of shares	(iii)	**–**	**–**	10,000	88
Issue of ordinary shares upon capitalisation	(v)	**–**	**–**	815,000	6,934
Issue of ordinary shares upon placing of shares	(vi)	**–**	**–**	275,000	2,339
As at 31 December		**1,100,000**	**9,361**	1,100,000	9,361

Notes:

(i) The Company was incorporated as exempted company under the laws of the Cayman Islands with limited liability on 19 August 2016 with authorised share capital of US$10,000 dividend into 10,000 shares of US$1.00 each and issued 10,000 shares of US$10,000.

(ii) On 27 March 2017, the authorised share capital of the Company was increased by HK$380,000 by the creation of 38,000,000 shares of par value of HK$0.01 each so that immediately following the increase, the authorised share capital of the Company became the aggregate of US$10,000 divided into 10,000 shares of par value of US$1.00 each and HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each.

Following the aforesaid increase, Point Stone Capital and Arcenciel Capital subscribed for 3,822,000 and 3,978,000 shares of HK$0.01 each at par respectively which were allotted and issued as fully paid up. Following the aforesaid allotment and issue, the Company repurchased all of the 4,900 and 5,100 issued shares of US1.00 each from Point Stone Capital and Arcenciel Capital respectively at a price of US$1.00 for each share out of the proceeds from the aforesaid issue of new shares of HK$0.01 each to Point Stone Capital and Arcenciel Capital. All of the repurchased 10,000 shares of US$1.00 each were canceled and the authorised but unissued share capital of the Company was diminished by the cancelation of all of the unissued shares of US$1.00 par value each of the Company. Accordingly, the authorised share capital of the Company became HK$380,000 divided into 38,000,000 shares and the issued share capital of the Company became HK$78,000 divided into 7,800,000 shares.

28. SHARE CAPITAL *(CONTINUED)*

Notes: (Continued)

(iii) On 27 March 2017, the Company further allotted and issued 2,200,000 shares to its shareholders at par value. Accordingly, the issued shares became HK$100,000 (equivalent to approximately RMB88,000) dividend into 10,000,000 shares.

(iv) The authorised share capital was increased from HK$380,000 to HK$30,000,000 by the creation of a further 2,962,000,000 shares.

(v) Pursuant to written resolutions passed on 21 October 2017, conditional upon the share premium account of the Company having sufficient balances, or otherwise being credited by way of share offering, the directors were authorised to allot and issue a total of 815,000,000 shares credited as fully paid at par by way of capitalisation of the sum of HK$8,150,000 (equivalent to approximately RMB6,934,000) standing to the credit of the share premium account of the Company.

(vi) On 9 November 2017, 275,000,000 ordinary shares of HK$0.01 each of the Company issued at a price of HK$0.66 by the way of placing. On the same date, the Company's ordinary shares were posted on the Stock Exchange. The proceeds of HK$2,750,000 (equivalent to approximately RMB2,341,000) representing the par value of the ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$178,750,000 (equivalent to approximately RMB152,063,000), before issuing expenses of approximately RMB14,840,000, were credited to share premium account.

(vii) The Group Reorganisation was completed on 27 March 2017. The share capital in the Group's consolidated statements of financial position as at 31 December 2018 and 2017 represented the share capital of the Company.

29. RESERVES

Share premium

The share premium is the excess of the proceeds received over the par value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

Capital reserves

Capital reserves represented (i) the excess net assets of RMB30,000 from Putian Cable, which was the capital surplus raised from the capital injection of US$185,000 on 2 November 2001; and (ii) the excess net assets of RMB160,000 from Jiangxi Optical, which transferred from the PRC statutory reserves when Jiangxi Optical transformed from Limited Company to Stock Corporation as at the date of transformation, 30 September 2013.

Other reserves

The amount arose from the acquisition of equity interest in the Putian Cable by Jiangxi Tianyuan during the group reorganisation.

29. RESERVES *(CONTINUED)*

PRC statutory reserve

In accordance with the relevant laws and regulations of the PRC, the PRC subsidiary is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or to increase capital.

Exchange reserve

The translation reserve comprises the exchange differences arising on the translation of the financial statements of foreign operations.

30. OPERATING LEASE COMMITMENT

The Group as lessee

The Group leases a premise under operating lease arrangement. The lease runs for an initial period of 1-5 years and is non-cancellable. The total future minimum lease payments under the lease are due as follows.

	2018 RMB'000	2017 RMB'000
Rented premises:		
– Within one year	1,249	1,081
– In the second to fifth year, inclusive	654	846
– After five years	–	–
	1,903	1,927

31. RELATED PARTY TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in note 14 and 15 respectively.

Except as disclosed above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

32. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		66	66
Fixtures and furniture		11	–
		77	66
Current assets			
Amounts due from subsidiaries	(i)	125,861	127,751
Cash and cash equivalents		80,952	–
		206,813	127,751
Current liabilities			
Other payables and Accruals		4,570	2,619
Net current assets		202,243	125,132
Non-current liabilities			
Other borrowings		80,843	–
Net assets		121,477	125,198
CAPITAL AND RESERVES			
Share capital		9,361	9,361
Reserves	(ii)	112,116	115,837
Total equity		121,477	125,198

On behalf of the directors:

Wang Qiu Ping
Director

Zhao Xiao Bao
Director

32. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

The amounts of the Group's reserves and the movements therein for the Year are presented in the consolidated statement of changes in equity on page 54 of this report.

Notes:

(i) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Movements in reserves

	Share premium RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance as at 1 January 2017	–	–	–	–
Loss for the year	–	–	(12,704)	(12,704)
Exchange differences arising on transaction of foreign operations	–	(1,748)	–	(1,748)
Total profit and other comprehensive income for the year	–	(1,748)	(12,704)	(14,452)
Shares issued pursuant to the capitalisation	(6,934)	–	–	(6,934)
Shares issued pursuant to the public offer and placing	152,063	–	–	152,063
Transaction costs attributable to the public offer and placing	(14,840)	–	–	(14,840)
Balance as at 31 December 2017 and 1 January 2018	130,289	(1,748)	(12,704)	115,837
Loss for the year	–	–	(9,690)	(9,690)
Exchange differences arising on transaction of foreign operations	–	5,969	–	5,969
Balance as at 31 December 2018	**130,289**	**4,221**	**(22,394)**	**112,116**

33. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiary#	Form of business structure	Place of incorporation/ operation and principal activity	Description of shares held	Percentage of ownership interests/voting rights/profit share
Interests held directly				
Putian Group Investment Co., Ltd. ("**Putian Investment**") (普天集團投資有限公司)	Corporation	Investment holding in the British Virgin Island ("**BVI**")	Ordinary shares US dollars ("**US$**")10,000	100
Interests held indirectly				
Putian Group (HK) Investment Limited ("**Putian Group HK**") (普天集團(香港)投資有限公司)	Corporation	Investment holding in Hong Kong	Ordinary shares HK dollars ("**HKD**")10,000	100
Jiangxi Tianyuan Intelligent Technology Co., Ltd ("**Jiangxi Tianyuan**") (江西天源智能科技有限公司)*	Corporation	Investment holding in the People's Republic of China ("**The PRC**")	Renminbi ("**RMB**")10,000,000	100
Putian Cable Group Co., Ltd ("**Putian Cable**") (普天線纜集團有限公司) ^^	Corporation	Production and sales of communication copper cables and optical fiber cables in the PRC	RMB101,000,000	100
Jiangxi Changtian Optical Communication Co., Ltd ("**Jiangxi Optical**") (江西長天光電通信有限公司) ^	Corporation	Sales of optical fiber cables in the PRC	RMB30,000,000	100
Jiangxi Putian Building Intelligence Co., Ltd. ("**Jiangxi Building**") (江西普天樓宇智能有限公司) ^	Corporation	Sales of structured cabling system products in the PRC	RMB8,000,000	100
Putian Cable Group (Shanghai) Building Intelligence Co., Ltd ("**Putian Cable (Shanghai)**") (普天線纜集團(上海)樓宇智能有限公司) ^	Corporation	Sales of structured cabling system products in the PRC	RMB30,000,000	100
Jiangxi Putian Scrap Metal Recycle Co., Ltd ("**Jiangxi Recycle**") (江西普天廢舊金屬回收有限公司) ^	Corporation	Dormant company in the PRC	RMB6,000,000	100
Jiangxi Changxun Plastic Technology Co., Ltd ("**Jiangxi Changxun**") (江西長訊塑膠科技有限公司) ^	Corporation	Dormant company in the PRC	RMB20,000,000	100

\# The English names of all subsidiaries established in the PRC are translated for identification purpose only.

* These entities are established in the PRC in the form of wholly foreign-owned enterprise.

^ The entity is established in the PRC in the form of domestic limited liability company.

^^ The entity is established in the PRC in the form of domestic limited liability company. Pursuant to the Group Reorganisation, the entity became a sino-foreign owned enterprise on 22 January 2017.

None of the subsidiaries had issued any debt securities at the end of the Year.

34. NOTES SUPPORTING CASH FLOWS STATEMENTS

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents comprise:		
Restricted cash	16,166	50
	16,166	50

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2017 RMB'000	Cash flows RMB'000	2018 RMB'000
Short-term borrowings	61,834	(18,365)	43,469
Long-term borrowings	51,732	29,111	80,843
Amount due to a director	–	1,746	1,746
Total liabilities from financing activities	113,566	12,492	126,058

36. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure of the Group contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment and intangible assets	9,500	1,431

37. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, respectively.

The directors of the Company review the capital structure on a continuous basis taking into account the loss of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2018 RMB'000	2017 RMB'000
Financial assets		
Loans and receivables:		
Trade, bills and other receivables	232,810	176,391
Restricted cash	16,166	50
Cash and cash equivalents	89,201	108,583
Financial liabilities		
Amortised costs:		
Trade, bills and other payables	83,052	34,107
Bank and other borrowings	124,312	113,566
Amount due to a director	1,746	–

Financial instruments not measured at fair value include cash and cash equivalents, restricted cash, trade, bills and other receivables, trade, bills and other payables, contract liabilities, bank borrowings and other borrowings.

Due to their short term nature, the carrying value of cash and cash equivalents, restricted cash, trade, bills and other receivables, trade, bills and other payables, contract liabilities, bank borrowings and other borrowings approximates fair value.

39. FINANCIAL RISK MANAGEMENT

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. The Group does not have an interest rate hedging policy. However, the directors of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Interest rate risk *(Continued)*

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain of the bank and other borrowings of the Group as at 31 December 2018 and 2017 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 26.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on it floating rate bank borrowings with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2018 **RMB'000**	2017 RMB'000
Change in profit after tax and retained profits:		
+/-100 basis points	**-/+320**	-/+275

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the bank borrowing period of the loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

(b) Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated statements of financial position.

The Group trades only with recognised and credit-worthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the directors of the Company review the recoverable amount of each individual trade and bills receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group is significantly reduced.

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk *(Continued)*

(i) Trade and bills receivables

The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowances based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowances RMB'000
Current (not past due)	1.0	230,471	2,254
1-30 days past due	5.1	613	31
31-60 days past due	6.1	379	23
More than 60 days past due	15.5	657	102
		232,120	2,410

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (note 4.7(ii)). As at 31 December 2017, no trade and bills receivables were determined to be impaired. The ageing analysis of trade and bills receivables that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	171,779
1-30 days past due	–
31-60 days past due	–
	171,779

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk *(Continued)*

(i) Trade and bills receivables (Continued)

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowances account in respect of trade and bills receivables during the year is as follows:

	RMB'000
Carrying amount as at 1 January 2018	–
Effect of adoption of HKFRS 9	1,796
Carrying amount as at 1 January 2018 (restated)	1,796
Expected credit losses recognised	614
Carrying amount as at 31 December 2018	2,410
Carrying amount as at 31 December 2017	–

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(c) Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 31 December 2018					
Trade, bills and other payables	**83,052**	**83,052**	**82,890**	**162**	**–**
Bank and other borrowings	**124,312**	**139,714**	**52,015**	**87,699**	**–**
Amount due to a director	**1,746**	**1,746**	**1,746**	**–**	**–**
	209,110	**224,512**	**136,651**	**87,861**	**–**
As at 31 December 2017					
Trade, bills and other payables	34,107	34,107	34,064	43	–
Bank and other borrowings	113,566	121,717	63,557	58,160	–
	147,673	155,824	97,621	58,203	–

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(d) Currency risk

(i) Exposure to currency risk

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

The following table details the Group's exposure as at 31 December 2018 to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the end of reporting period. Differences resulting from the translation of the financial statements of the entities with functional currency other than RMB into the Group's presentation currency are excluded.

The Company has significant financial assets and financial liabilities denominated in currencies other than its functional currency and it is exposed to currency risk.

	2018		2017	
	USD Denominated in RMB'000	HKD Denominated in RMB'000	USD Denominated in RMB'000	HKD Denominated in RMB'000
Cash and cash equivalents	51	82,146	20	89,841
Bank and other borrowings	–	(80,843)	–	–
	51	1,303	20	89,841

39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by changes in the foreign exchange rates.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**5%**	**3**	5%	1
	(5)%	**(3)**	(5)%	(1)
HKD	**5%**	**65**	5%	4,492
	(5)%	**(65)**	(5)%	(4,492)

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis as at 31 December 2017 has been performed on the same basis.

40. EVENTS AFTER THE END OF REPORTING DATE

From 31 December 2018 to the date of this report, saved as disclosed in this report, the Board is not aware of any significant events that have occurred which require disclosure herein.