# 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

## 2019 ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTOR

Ms. Jiang Xuefeng

### 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

## 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
Cricket Square, 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 54 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, collectively 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 2019, the Company had 1,100,000,000 issued shares.

# FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, the Group's operating results were summarised as follows:

- Total revenue slightly decreased by approximately 2.1% to approximately RMB768.3 million (2018: approximately RMB785.0 million).
- Gross profit decreased by approximately 6.2% to approximately RMB184.4 million (2018: approximately RMB196.5 million).
- Gross profit margin slightly decreased by approximately 1.0% to approximately 24.0% (2018: approximately 25.0%).
- Profit for the year attributable to owners of the Company decreased by approximately 21.4% to approximately RMB66.8 million (2018: approximately RMB85.0 million).
- Revenue from sale of optical fiber cables decreased by approximately 23.5% to approximately RMB241.9 million (2018: approximately RMB316.2 million); revenue from sale of structured cabling system products significantly increased by approximately 21.8% to approximately RMB217.1 million (2018: approximately RMB178.2 million); and revenue from sale of communication copper cables increased by approximately 6.4% to approximately RMB309.3 million (2018: approximately RMB290.6 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 2019 (2018: 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 | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **768,322** | 784,997 | 621,281 | 467,919 | 361,726 |
| Profit before income tax expense | **83,698** | 104,678 | 73,352 | 63,144 | 40,582 |
| Income tax expense | **(16,946)** | (19,685) | (15,301) | (11,045) | (6,224) |
| Profit for the year | **66,752** | 84,993 | 58,051 | 52,099 | 34,358 |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | **66,752** | 84,993 | 58,051 | 52,102 | 34,368 |
| Non-controlling interests | **–** | – | – | (3) | (10) |
| | **66,752** | 84,993 | 58,051 | 52,099 | 34,358 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **802,522** | 631,640 | 484,086 | 326,552 | 291,605 |
| Total liabilities | **(333,739)** | (226,674) | (160,637) | (100,637) | (115,418) |
| | **468,783** | 404,966 | 323,449 | 225,915 | 176,187 |
| Equity attributable to owners of the Company | **468,783** | 404,966 | 323,449 | 225,915 | 173,747 |
| Non-controlling interests | **–** | – | – | – | 2,440 |
| | **468,783** | 404,966 | 323,449 | 225,915 | 176,187 |

# 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 our shareholders the annual results of the Group for the year ended 31 December 2019 (the "**Year**").

## BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Year. It recorded a total revenue of approximately RMB768.3 million which represented a slight decline of approximately 2.1% as compared with the one for the year ended 31 December 2018 (the "**Last Year**"). The Group has realized a gross profit of approximately RMB184.4 million for the Year, which represented a decline of approximately 6.2% as compared to the one for the Last Year. Profit for the Year attributable to owners of the Company was approximately RMB66.8 million, decreased by approximately 21.4% as compared with the one for the Last Year.

The decrease in revenue was mainly attributable to the decrease in sale of optical fiber cables by approximately 23.5% to approximately RMB241.9 million (the Last Year: approximately RMB316.2 million). The underperformance in the optical fiber cable business was alleviated by the good performance achieved in the structured cabling system products business. The sale of structured cabling system products increased by approximately 21.8% to approximately RMB217.1 million (the Last Year: approximately RMB178.2 million). Revenue generated from sale of communication copper cables increased by approximately 6.4% from approximately RMB290.6 million for the Last Year to approximately RMB309.3 million for the Year.

In general, the growth rate of the communication cable industry in the Year has slowed down as compared with previous years. The main reason was that the 4G construction in China has nearly come to the end while the 5G construction is still in an experimental stage. The commercialization of 5G is yet to come. The communication cable industry in China is in a lean season. Demand shrank because of few new communication network expansions, which led to an oversupply of goods and exerting a downward pressure on prices. As a medium size player in the industry, the Group's business has been adversely affected.

The Group had a steady performance in the sale volume of the optical fiber cable for the Year as compared with the same of the Last Year. However, the drop in the market price of the optical fiber cables in the industry results in a diminution of the gross profit margin of the Group’s optical fiber cables business. Overall revenue derived from the optical fiber cables business decreased by 23.5% as compared with the same of the Last year. The Group has expanded its sale team to diversify its customer base and penetrated into the non-telecommunication operator market in the structured cabling system products. Such strategy has been proved to be successful with a growth of 21.8% in the revenue generated from the sale of structured cabling system products for the Year as compared with the same of the Last Year. The market share and brand awareness of the Group’s structured cabling system products in non-operator markets have steadily increased. 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 2019. The Group has been honored with this award every year since 2015. For communication copper cable business, the performance is steady in terms of the market price and sale volume.

The Group is going to integrate to the industrial chain upstream sector to commence its production of optical fibers so as to obtain control over optical fiber supply, improve supply chain efficiency and strive for better profit margin. Through various financing activities (for example, the Group obtained a loan facility with a total principal amount of up to HK$200.0 million from AVIC Capital International Holdings Co.), the Group has secured sufficient funding to finance its construction of the optical fiber production plant. The construction of the plant is in progress and expected to be completed in the third quarter of 2020. The borrowings incurred for the construction of the optical fiber production plant have led to an increase in the Group’s financial costs in short term while a greater return including strengthening the supply force, reducing production costs, bringing profit growth points, and taking advantage of upstream fiber optic products to enhance the Group’s overall management and sustainable development. It paves the way for the Group’s growth in the 5G era.

## OUTLOOK

On 6 June 2019, the Ministry of Industry and Information Technology of China issued a 5G commercial license to China Mobile, China Unicom, China Telecom, China Radio and Television. The four major telecommunication operators will jointly invest billions of dollars in RMB in 5G network construction. Some studies have shown that China’s 5G Fronthaul Network will stimulate a demand of approximately 245 million fiber kilometers of optical fiber cables. The Standing Committee of the Political Bureau of the CPC Central Committee met on 4 March 2020 and announced to accelerate the progress of existing major projects and infrastructure constructions already clearly planned by the state, as well as new infrastructure projects such as 5G networks and data centers. As the shadow of the new coronary pneumonia epidemic subsides, the pace of infrastructure construction in the country will gradually resume. Major national development projects such as 5G network and data centers will be accelerated.

In early 2020, China’s steady economy development plan was strongly affected by the coronavirus outbreak. Relevant reports indicate that China will continue to lead the development of 5G industries under the epidemic. Under this coronavirus outbreak, 5G with “large bandwidth, low latency, wide connection” characteristics played an important role in the epidemic prevention and control, which enhance the PRC government’ management efficiency and capacity. 5G remote diagnosis and treatment technology, 5G plus thermal imaging technology and 5G ultra-high definition live broadcast technology have proved the importance of 5G technology and the need for 5G network construction. 5G “new infrastructure” is one of the important driving forces of the “post-epidemic era” economic recovery. Optical fiber cables as an important part of 5G network construction, will usher in the need for blowout.

The Group will continue to maintain its good business relationship with the major telecommunication operators and keep participating actively in the major telecommunication operators' large-scale bidding projects. Strengthened production capacity and overall competitiveness will help us secure more orders. The Group will remain committed to business diversification and continue to maintain a high-speed growth trend in the market of the non-telecommunication operators. In the 5G era, there will be numerous new "small operators" for vertical industries and new industries. The Group has set up 27 sales representatives in large and medium-sized cities across the country to achieve full coverage of all major provinces and cities in the country, and further expand the businesses in the non-telecommunication operator clients nationally.

Optical fiber cables, communication copper cables and structured cabling system products are set as the three key business segments of the Group. In the meantime, the Group is going to expand its business into parallel industries, such as data centers, building intercom, smart home. Among which, the development of structured cabling system products is one of the Group's most important strategies in the coming years. We have achieved promising results in the structured cabling system products business. Take it next, the Group aims to become No.1 brand in the non-telecommunication operators' market. It will further expand its market share and brand in the 5G era and strive for excellence in product quality and service to provide customers with high quality and diversified supply of communications network support.

In addition to actively structuring the market and diversifying its product lines, the Group will make unremitting efforts in research and development. To meet the requirements of ultra-high bandwidth, ultra-low latency and ultra-high reliability in the 5G era, the Group has set up a first-class research and development team and acquired technology from industry leaders. The Group has mastered the domestic advanced technology and obtained a number of invention patents. The Group will continuously focus on the research and development work and treat it as the primary impetus to our business growth.

The forthcoming period is full of challenges. The Group believes in the need to strengthen the foundation. When the demand arising from 5G releases, the communication cable industry is bound to usher in a new round of growth. The Group looks forward to the era of the Internet of Everything. By then, the Group will seize the opportunities of 5G era for a business growth.

## 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. Total revenue of the Group slightly decreased by approximately 2.1% from approximately RMB785.0 million for the Last Year to approximately RMB768.3 million for the Year. Among which, revenue derived from sale of optical fiber cables decreased by approximately 23.5% from approximately RMB316.2 million for the Last Year to approximately RMB241.9 million for the Year; revenue derived from sale of structured cabling system products significantly increased by approximately 21.8% from approximately RMB178.2 million for the Last Year to approximately RMB217.1 million for the Year; and revenue derived from sale of communication copper cables increased by approximately 6.4% from approximately RMB290.6 million for the Last Year to approximately RMB309.3 million for the Year.

### Gross profit and margin

Gross profit decreased by approximately 6.2% to approximately RMB184.4 million for the Year from approximately RMB196.5 million for the Last Year. The Group's gross profit margin slightly declined to approximately 24.0% for the Year from approximately 25.0% for the Last Year. The decrease in gross profit margin was primarily due to a drop in the market price of the optical fiber cables in the industry resulting in a diminution of the gross profit margin of the Group's optical fiber cables business.

### Selling and distribution expenses

Selling and distribution expenses increased by approximately 24.1% from approximately RMB34.5 million for the Last Year to approximately RMB42.8 million for the Year, primarily due to an increase of approximately RMB7.6 million in salaries and welfare expenses for our selling and marketing staff, reflecting the Group's strengthened marketing efforts. Selling expenses as a percentage of the Group's revenue slightly increased, which was approximately 5.6% for the Year as compared to approximately 4.4% for the Last Year.

### Administrative expenses

Administrative expenses amounted to approximately RMB49.1 million for the Year, which remained stable as compared to the one of approximately RMB50.9 million for the Last Year.

### Finance costs

Finance costs increased by approximately 29.5% from approximately RMB6.1 million for the Last Year to approximately RMB7.9 million for the Year. Interest arising from bank and other borrowings for the Year amounted to RMB15.8 million and RMB7.9 million out of which has been capitalized for the construction of optical fiber production.

### Income tax expense

Income tax expense decreased by approximately 14.2% from approximately RMB19.7 million for the Last Year to approximately RMB16.9 million for the Year, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 18.8% for the Last Year and approximately 20.2% for the Year due to more revenue contributed by a subsidiary which is entitled to a corporate income tax rate of 25%.

### Profit for the Year

Profit for the Year decreased by approximately 21.4% from approximately RMB85.0 million for the Last Year to approximately RMB66.8 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 2019, the Group had an aggregate of restricted cash, cash and cash equivalents of approximately RMB96.9 million (2018: approximately RMB105.4 million), representing a decrease of approximately 8.1% as compared to that as at 31 December 2018. As at 31 December 2019, the Group had restricted cash of approximately RMB22.5 million (2018: RMB16.2 million) that was pledged to banks for various banking facilities.

### Borrowings and charges on the Group's assets

As at 31 December 2019, the Group had bank borrowings of approximately RMB130.0 million (2018: approximately RMB10.0 million) and out of which RMB120 million were secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates and RMB10.0 million was unsecured. Bank borrowings of approximately RMB76.5 million will be repayable within one year.

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 ("**Arcenciel**") and Point Stone Capital Co., Ltd ("**Point Stone**"), 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.

Save as disclosed in this annual report, the Group did not have any charges of assets as at 31 December 2019 (2018: Nil).

### Significant investments

The Group did not hold any significant investments during the Year.

### Material acquisitions or disposals

During the Year, the Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures.

### Gearing ratio

As at 31 December 2019, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.71 (2018: approximately 0.56).

### Total debt to total asset ratio

As at 31 December 2019, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.42 (2018: approximately 0.36).

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

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

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain of the bank and other borrowings of the Group as at 31 December 2019 and 2018 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 2019, the Group's maximum exposure to credit risk was the 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 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 will 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 consider that the credit risk of the Group is significantly reduced.

The Directors consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

The 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, which have 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 to adopt 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 2019, 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 RMB86.2 million (2018: approximately RMB9.5 million). The capital commitments incurred at the end of the Year were mainly contracted for the construction of the optical fiber production plant which is expected to be completed in the third quarter of 2020.

### 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 2019, the Group had approximately 514 employees (2018: approximately 471 employees). For the Year, the Group incurred staff costs of approximately RMB47.9 million (2018: approximately RMB40.9 million). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

## B. 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 complying with related environmental laws and legislations, and continual improvement on its performance. The Environmental, Social and Governance Report was set out on page 35 of this annual report in compliance with Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

## C. 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 35 of this annual report.

## D. 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.

## EXECUTIVE DIRECTORS

**Ms. Wang Qiuping (王秋萍)**, aged 56, 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 (五一巾幗標兵) of Jiangxi Province by Jiangxi Federation of Trade Unions in March 2018 and was recognised as 2018 Outstanding Entrepreneur 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 55, 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 18 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 31, 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.

## NON-EXECUTIVE DIRECTOR

**Ms. Jiang Xuefeng** ("**Ms. Jiang**"), aged 33, was appointed as a non-executive Director on 5 November 2019. Ms. Jiang graduated from The City University of Hong Kong with a bachelor's degree in business administration with first class honor in July 2009 and obtained a master degree in finance from The University of Hong Kong in November 2014. Ms. Jiang obtained the qualification of Certified Public Accountant from Hong Kong Institute of Certified Public Accountants in October 2012 and became a Chartered Financial Analyst in September 2013. Ms. Jiang has over eight years of experience in finance, banking and investment industries. She currently is the managing director of a state-owned Chinese financial institution in Hong Kong.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Cheng Shing Yan (鄭承欣)** ("**Ms. Cheng**"), aged 45, 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 22 years of experience in the fields of accounting and auditing. Ms. Cheng joined the group of Sanroc International Holdings Limited ("**Sanroc**") (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 of Sanroc from April 2016 to April 2018 and as the chief financial officer of certain subsidiaries of Sanroc since April 2018. 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) from July 2017 to 19 October 2019.

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 43, 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 15 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 48, 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 49, is the production director of the Group responsible for overseeing the overall production of the Group. Mr. Zeng has over 28 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 (模具設計與製造) 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 44, 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 18 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 43, 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 58, is a procurement and logistics director of the Group responsible for overall procurement and logistics operation of the Group. Mr. Ye has over 30 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 41, 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 17 years of experience in financial management, accounting and auditing work. Ms. Lai obtained a degree of master of science in corporate governance & compliance from the Hong Kong Baptist University in November 2019. Ms. Lai graduated from the City University of Hong Kong with a bachelor 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. Ms. Lai has also been admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in March 2020.

* *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 53.

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

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had reserves amounted to approximately RMB103.9 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 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 50.1% of the Group's total purchase. The largest supplier has attributed to approximately 16.2% 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 35.3% of the total sales. The Group's sales generated from top five customers has attributed to approximately 63.2% of the Group's total sales. 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 fulfil 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 the PRC.

## 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

### Non-Executive Director

Ms. Jiang Xuefeng

### 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. Wang Qiuping, Mr. Liu Guodong, Mr. Xie Haidong and Ms. Jiang Xuefeng will retire from office as Directors at the forthcoming annual general meeting of the Company. All 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 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, and shall continue thereafter until terminated by not less than one month's written notice to the other party.

The non-executive Director, Ms. Jiang, has entered into a letter of appointment with the Company commencing from 5 November 2019 and to be terminated in a month after all the loan pursuant to the Loan Agreement has been fully repaid by the Company to the Lender.

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 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term. 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, non-executive Director 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 2019, 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 (notes 2 and 4) | 408,375,000 | 37.13% |
| Mr. Zhao Xiaobao | Interest in a controlled corporation (notes 3 and 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 2019, 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 2019, 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 (notes 2 and 4) | 408,375,000 | 37.13% |
| Point Stone Capital Co., Ltd. | Beneficial owner (notes 3 and 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 2019, 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

Pursuant to written resolutions passed on 21 October 2017, the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme will remain in force for a period of 10 years commencing on 21 October 2017. No share options have been granted under the Share Option Scheme since its effective date and up to 31 December 2019 and hence there was no outstanding options as at 31 December 2019. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the Board may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the Listing date (i.e. not exceeding 110,000,000 shares).

The maximum entitlement of each Eligible Participants under the Share Option Scheme shall be:

(a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of such limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules; and

(b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any twelve month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since from the date adopted this Share Option Scheme till the end of the year ended 31 December 2019 and there was no outstanding share option as at 1 January 2019 and 31 December 2019.

No share-based payment expense was recognised for the year ended 31 December 2019 in relation to share options granted by the Company.

As the date of this annual report, the Company may grant up to 110,000,000 share option under the Share Option Scheme, which represented 10% of the Company's share in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

## 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

The Company received confirmations from the controlling shareholders of the Company in January 2020 on their compliance of the non-competition undertaking under the deed of non-completion as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus ("**Deed of non-competition**") for the Year. The independent non-executive Directors have reviewed the confirmations and evaluated the effectiveness of the implementation of the Deed of non-competition and concluded that none of 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-competition during the Year.

## 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 in the section headed "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 2019 are as follows:

| | For the year ended | |
|---|---|---|
| | **31 December 2019** | 31 December 2018 |
| Percentage of turnover | | |
| From the largest customer | **35.3%** | 45.3% |
| From the five largest customers in aggregate | **63.2%** | 75.1% |
| Percentage of purchase | | |
| From the largest supplier | **16.2%** | 15.9% |
| From the five largest suppliers in aggregate | **50.1%** | 51.7% |

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

Following the outbreak of the novel coronavirus (COVID-19) epidemic in China in early 2020, the business operations and the overall economy of the PRC have been adversely affected. The Board expects that the COVID-19 outbreak may bring negative effect on the Group's business. However, due to the dynamic nature of the COVID-19 epidemic, it is difficult for the Board to estimate the extent of its impact on the Group's business and financial position in 2020. The Board is closely monitoring the development of, and the disruptions to the PRC economy caused by, the COVID-19 epidemic and will timely assess and react actively to its impact on the operation and financial performance of the Group. The Group will issue announcements to make relevant disclosures as and when appropriate and necessary.

Save as disclosed above, there was no other significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the Year.

## 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, 31 March 2020

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for 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. 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. However, 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 its shareholders 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, overseeing the Group's strategic decisions and monitoring its 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 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

**Non-Executive Director:**

Ms. Jiang Xuefeng

**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 and Mr. Zhao Xiaobao are spouse 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/her 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 and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, subject to termination as provided in the service contract.

The non-executive Director, Ms. Jiang, has entered into a letter of appointment with the Company commencing from 5 November 2019 and to be terminated in a month after all the loan pursuant to the Loan Agreement has been fully repaid by the Company to the Lender.

Each of the independent non-executive Directors has signed an appointment letter ("Letter") with the Company for a term of two years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term.

The appointments of executive Directors, non-executive Director 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 2019 and up to the date of this annual report, the Company held six Board meetings, three Audit Committee meetings, three Remuneration Committee meetings and three 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)* | 6/6 | N/A | N/A | N/A | 1/1 |
| Mr. Zhao Xiaobao *(alias Zhao Baohua)* | 6/6 | N/A | N/A | N/A | 1/1 |
| Ms. Zhao Moge | 6/6 | N/A | N/A | N/A | 1/1 |
| **Non-executive Director** | | | | | |
| Ms. Jiang Xuefeng | 1/6 | N/A | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | | |
| Ms. Cheng Shing Yan | 6/6 | 3/3 | 3/3 | 3/3 | 1/1 |
| Mr. Liu Guodong | 6/6 | 3/3 | 3/3 | 3/3 | 0/1 |
| Mr. Xie Haidong | 6/6 | 3/3 | 3/3 | 3/3 | 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 2019 and up to the date of this annual 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 2019 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 2019 and up to the date of this annual report, the Remuneration Committee held three 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 2019 and up to the date of this annual report, the Nomination Committee held three 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 48 to 52 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 RMB1.08 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.

The Group has engaged a consulting firm to conduct an annual review of the effectiveness of the internal control system of the Group including making recommendations to enhance the overall internal control system for the year ended 31 December 2019. The internal control review report has been approved by the audit committee and the Board. Based on the internal control review report and its own assessment, the Board considered that the Company's internal control system is adequate and effective.

### 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 takes 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

We are pleased to present the Environmental, Social and Governance ("**ESG**") report for the year ended 31 December 2019 (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**"), the 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 27 to 34 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 the 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.

## ESG GOVERNANCE

The Group believes that sound ESG principles and practices will increase investment value and provide long-term returns to stakeholders. In a bid to ensure the establishment of appropriate and effective ESG risk management measures and internal control system, the Board is responsible for overseeing the Group's ESG strategies and reporting, as well as assessing and determining ESG-related risks.

## 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<br>• Support local economic growth<br>• Drive local employment<br>• Pay taxes in full and on time<br>• Ensure production safety | • Report information regularly<br>• Meet the regulators regularly<br>• Dedicated reports<br>• Examinations and inspections |
| Shareholders | • Returns<br>• Compliant operation<br>• Raise company value<br>• Transparency in information and effective communication | • General Meetings<br>• Announcements<br>• Email, telephone communication and company website<br>• Dedicated reports |
| Business Partners | • Operate with integrity<br>• Equal Rivalry<br>• Performance of contracts<br>• Mutual benefit and win-win result | • Review and appraisal meetings<br>• Business communications<br>• Exchanges and discussions<br>• Engagement and cooperation |
| Customers | • Outstanding products and services<br>• Health and safety<br>• Performance of contracts<br>• Operate with integrity | • Customer service center and hotlines<br>• Customer feedback surveys<br>• Customer communication meetings<br>• Social Media Platforms |
| Environment | • Compliant emission<br>• Energy saving and emission reduction | • Communicate with local environmental department<br>• Communicate with the locals |
| Industry | • Establishment of industry standards<br>• Drive industry development | • Participate in industry forums<br>• Visits and inspections |
| Employees | • Protection of rights<br>• Occupational health and safety<br>• Remunerations and benefits<br>• Career development<br>• Humanity cares | • Employee communication meetings<br>• House journal and intranet<br>• Employee mailbox<br>• Training and workshop<br>• Employee activity |
| Community and the Public | • Improve community environment<br>• Participation in charity<br>• Transparent information | • Company website<br>• Announcements<br>• 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. Environmental Compliance | 14. Employment Compliance | 21. Operational Compliance | 33. Charity |
| 2. Fleet Emissions Management | 15. Remuneration and Benefits | 22. Managing Environmental Risks of Supply Chain | 34. Promotion of Community Development |
| 3. Greenhouse Gas Emission | 16. Working Hour and Rest Period | 23. Managing Social Risks of Supply Chain | 35. Poverty Alleviation |
| 4. Waste Management | 17. Diversity and Equal Opportunity | 24. Procurement Practices | |
| 5. Energy Consumption | 18. Occupational Health and Safety | 25. Quality Management | |
| 6. Use of Water Resources | 19. Training and Education | 26. Responsible Sales and Marketing | |
| 7. Green Office | 20. Prevention of Child Labour and Forced Labour | 27. Customers Service Management | |
| 8. Green Energy Project | | 28. Intellectual Property Protection | |
| 9. Green Building | | 29. Research and Development | |
| 10. Use of Raw Material and Packaging Materials | | 30. Information Security | |
| 11. Ecological Protection | | 31. Customer Privacy Protection | |
| 12. Responding to Climate Change | | 32. Anti-corruption | |
| 13. Prevention and Handling of Environmental Incidents | | | |

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. Prioritising 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 analysing the results of questionnaire survey with consideration to the actual business operation, the Group has identified 6 material topics which are disclosed in details in the ESG report.

| Material Topics | Corresponding Sections |
|---|---|
| 14. Employment Compliance | Value Our People |
| 18. Occupational Health and Safety | Value Our People<br>Health and Safety |
| 21. Operational Compliance | Operating Practices |
| 25. Quality Management | Operating Practices<br>Quality Assurance |
| 27. Customer Service Management | Operating Practices<br>Customer Oriented |
| 29. Research and Development | Environmental Protection<br>Operating Practices<br>Respect for Intellectual Property Rights and Privacy |

After reviewing the identified materials topics related to the ESG aspects, the importance of the ESG performance is recognised 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 implemented 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 in a timely manner by taking measures to minimise hazards and prevent deterioration of the incident. 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

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. The exhaust gases emitted by Putian Cable plants are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Exhaust Gases** | | |
| Nitrogen oxides (kg) | **8.1** | 8.4 |
| Sulphur oxides (kg) | **0.2** | 0.2 |
| Particulate matter (kg) | **0.6** | 0.6 |

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. The greenhouse gas emissions of Putian Cable plants are as follows:

| | **2019** | 2018 |
|---|---|---|
| **Greenhouse Gases** | | |
| Total greenhouse gas emissions (tonnes $CO_2e$) | **3,311** | 3,432 |
| Greenhouse gas emissions per square metre (tonnes $CO_2e/m^2$) | **0.08** | 0.08 |
| Greenhouse gas emissions per revenue (tonnes $CO_2e$/RMB'000) | **0.004** | 0.004 |
| Scope 1 – Direct emissions (tonnes $CO_2e$) | **39** | 62 |
| Scope 2 – Energy indirect emissions (tonnes $CO_2e$) | **3,262** | 3,358 |
| Scope 3 – Other indirect emissions (tonnes $CO_2e$) | **10** | 12 |

Waste scrap and incoming packaging materials from the production process are the major non-hazardous wastes of Putian Cable and are recycled as far as possible. Another type of non-hazardous wastes is domestic garbage, which 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 utilises the raw materials to the greatest extent to reduce waste scrap produced. The Group also encourages its employees to reduce the usage of disposable and non-recyclable products in respect of waste reduction. During the Year, there was no hazardous waste produced by Putian Cable plants (2018: 0 tonne). The data of non-hazardous waste generated from Putian Cable plants is as follows:

| | **2019[1]** | 2018[2] |
|---|---|---|
| **Wastes** | | |
| Total non-hazardous waste generated (tonnes) | **224** | 151 |
| Non-hazardous waste generated per square metre (tonnes/$m^2$) | **0.005** | 0.004 |
| Non-hazardous waste generated per reveune (kg/RMB'000) | **0.29** | 0.19 |

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.

## Resources Conservation

The Group endeavours 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 organised 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.

1 The Group has enhanced the data collection during the Year and started disclosing the amount of waste scrap recycled from the production process of Putian Cable.

2 The data of non-hazardous waste in 2018 included only the amount of domestic waste generated.

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. The energy consumption of Putian Cable plants is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Energy Consumption** | | |
| Total energy consumption (MWh) | 6,326 | 6,551 |
| Energy consumption per square metre (MWh/$m^2$) | 0.15 | 0.15 |
| Energy consumption per revenue (MWh/RMB’000) | 0.008 | 0.008 |
| Purchased electricity (MWh) | 6,205 | 6,387 |
| Gasoline (MWh) | 113 | 156 |
| Liquefied petroleum gas (MWh) | 8 | 8 |

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. The water consumption of Putian Cable plants is as follows:

| | 2019 | 2018 |
|---|---|---|
| **Water Consumption** | | |
| Total water consumption ($m^3$) | 9,714 | 14,018 |
| Water consumption per square metre ($m^3/m^2$) | 0.23 | 0.33 |
| Water consumption per revenue ($m^3$/RMB’000) | 0.01 | 0.02 |

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, fibre fabric and paper, in which plastic and paper are used to pack products in both kilometres and pieces. Detailed usage of packaging materials is as follows:

**Optical Fibre Cables and Communication Copper Cables:**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Types of Package Material | Total Amount (kg) | Amount per Unit Produced (kg/km) | Total Amount (kg) | Amount per Unit Produced (kg/km) |
| Metal | 744,000 | 0.9 | 441,000 | 0.5 |
| Wood | 62,000 | 0.1 | 42,000 | 0.1 |
| Plastic | 1,478,000 | 1.7 | 1,819,000 | 2.0 |
| Fiber Fabric | 114,000 | 0.1 | 82,000 | 0.1 |
| Paper | 826,000 | 1.9 | 903,000 | 2.0 |

**Structured Cabling System Products:**

| Types of Package Material | 2019 Total Amount (kg) | 2019 Amount per Unit Produced (kg/piece) | 2018 Total Amount (kg) | 2018 Amount per Unit Produced (kg/piece) |
|---|---|---|---|---|
| Plastic | **8,258,000** | **1.000** | 5,895,000 | 1.034 |
| Paper | **17,000** | **0.002** | 11,000 | 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 utilise 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.

## 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 organised 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 2019, there were total 324 employees from Putian Cable (2018: 296), who are all permanent staff. Detailed numbers of employees by gender and age group are as follows:

| Number of Employees | 2019 | 2018 |
|---|---|---|
| **By Gender** | | |
| Female | 101 | 92 |
| Male | 223 | 204 |
| **By Age Group** | | |
| Below 30 years old | 95 | 67 |
| Between 30 to 50 years old | 191 | 178 |
| Over 50 years old | 38 | 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 vacation leaves. 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, our remuneration structure is annually reviewed so as to maintain competitive remuneration offered to employees. We have also implemented annual appraisal system to evaluate the working performance of employees. 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, testing procedures and management skills, 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 recognised.

The average training hours per employee and percentage of trained employees of Putian Cable are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Average Training Hours per Employee (hours) | Percentage of Trained Employees (%) | Average Training Hours per Employee (hours) | Percentage of Trained Employees (%) |
| **By Employee Category** | | | | |
| Senior | 58 | 100 | 8 | 100 |
| Intermediate | 63 | 100 | 8 | 100 |
| Junior | 53 | 100 | 2 | 100 |
| **By Gender** | | | | |
| Female | 55 | 100 | 5 | 100 |
| Male | 54 | 100 | 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 organise 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 such positions 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 analyses the factors that affecting our product quality, production efficiency and raw material utilisation 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 handle 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 3 new patents in the PRC in terms of technologies relating to our cabling system, electronic cables and internet scanning device. 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 unauthorised 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 behaviours 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. During the Year, Putian Cable has provided anti-corruption related training to employees, so as to enhance their awareness on the prohibition of commercial bribery and remind them the business ethnics and responsibility.

## 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**<br>Information on:<br>(a) the policies; and<br>(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<br>Emissions Treatment | 38<br>38 |
| **Aspect A2: Use of Resources** | **General Disclosure**<br>Policies on the efficient use of resources, including energy, water and other raw materials. | Environmental Protection<br>Resources Conservation | 38<br>39 |
| **Aspect A3: The Environment and Natural Resources** | **General Disclosure**<br>Policies on minimising the issuer's significant impact on the environment and natural resources. | Environmental Protection<br>Green Operation | 38<br>41 |

| ESG Indicators | Summary | Sections | Page |
|---|---|---|---|
| **Social** | | | |
| **Employment and Labour Practices** | | | |
| **Aspect B1: Employment** | **General Disclosure**<br>Information on:<br>(a) the policies; and<br>(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<br>Employees' Rights and Interests | 41<br>41 |
| **Aspect B2: Health and Safety** | **General Disclosure**<br>Information on:<br>(a) the policies; and<br>(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<br>Health and Safety | 41<br>43 |
| **Aspect B3: Development and Training** | **General Disclosure**<br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Value Our People<br>Employees' Rights and Interests | 41<br>41 |
| **Aspect B4: Labour Standards** | **General Disclosure**<br>Information on:<br>(a) the policies; and<br>(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<br>Employees' Rights and Interests | 41<br>41 |

| ESG Indicators | Summary | Sections | Page |
|---|---|---|---|
| **Operating Practices** | | | |
| **Aspect B5: Supply Chain Management** | **General Disclosure**<br>Policies on managing environmental and social risks of the supply chain. | Operating Practices<br>Supplier Management | 43<br>43 |
| **Aspect B6: Product Responsibility** | **General Disclosure**<br>Information on:<br>(a) the policies; and<br>(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<br>Quality Assurance<br>Customer Oriented<br>Respect for Intellectual Property Rights and Privacy | 43<br>44<br>44<br>44 |
| **Aspect B7: Anti-corruption** | **General Disclosure**<br>Information on:<br>(a) the policies; and<br>(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<br>Anti-Corruption | 43<br>45 |
| **Community** | | | |
| **Aspect B8: Community Investment** | **General Disclosure**<br>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 | 45 |

# INDEPENDENT AUDITOR'S REPORT

**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 53 to 108, which comprise the consolidated statement of financial position as at 31 December 2019 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 2019, 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 FOR 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 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 production 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 the telecommunications network operators and non-operators 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 telecommunications network operators and non-operators.

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 end, 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; and
- 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 2019, the Group had net trade and bills receivables amounting to approximately RMB264,626,000, after making loss allowance of approximately RMB4,050,000. It represented approximately 33.0% 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 loss ("**ECL**") based on management's estimated loss rates for each category of trade and bills receivables. The estimated loss rates take into account the aging of the trade and bills receivables, overdue balances, information regarding the ability and intent of the debtor to pay and 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 foregoing 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 ageing 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 2019 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.

- 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.

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

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, 31 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 7 | **768,322** | 784,997 |
| Cost of sales | | **(583,907)** | (588,544) |
| **Gross profit** | | **184,415** | 196,453 |
| Other income | 8 | **715** | 371 |
| Selling and distribution expenses | | **(42,773)** | (34,484) |
| Administrative expenses | | **(49,110)** | (50,916) |
| Expected credit losses on financial assets | | **(1,640)** | (614) |
| Finance costs | 9 | **(7,909)** | (6,132) |
| **Profit before income tax expense** | 10 | **83,698** | 104,678 |
| Income tax expense | 11 | **(16,946)** | (19,685) |
| **Profit for the year** | | **66,752** | 84,993 |
| **Profit for the year attributable to the owners of the Company** | | **66,752** | 84,993 |
| **Other comprehensive income** | | | |
| Items that will be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(2,945)** | (1,941) |
| Other comprehensive income for the year, net of tax | | **(2,945)** | (1,941) |
| **Profit and total comprehensive income for the year** | | **63,807** | 83,052 |
| **Earnings per share** | 13 | | |
| Basic and diluted | | **RMB0.061** | RMB0.077 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 244,886 | 119,513 |
| Prepaid land lease payments | 17 | – | 11,749 |
| Prepayment for property, plant and equipment and intangible assets | 18 | 69,339 | 60,257 |
| Total non-current assets | | 314,225 | 191,519 |
| **Current assets** | | | |
| Prepaid land lease payments | 17 | – | 289 |
| Inventories | 19 | 65,588 | 70,607 |
| Trade and bills receivables | 20 | 264,626 | 229,710 |
| Deposits, prepayment and other receivables | | 61,167 | 34,148 |
| Restricted cash | 21 | 22,476 | 16,166 |
| Cash and cash equivalents | 22 | 74,440 | 89,201 |
| Total current assets | | 488,297 | 440,121 |
| **Total assets** | | 802,522 | 631,640 |
| **Current liabilities** | | | |
| Trade and bills payables | 23 | 71,964 | 68,715 |
| Contract liabilities | 24 | 4,525 | 3,761 |
| Lease liabilities | 30 | 584 | – |
| Accruals, deposits received and other payables | | 17,864 | 15,164 |
| Amount due to a director | 25 | – | 1,746 |
| Current tax liabilities | | 3,168 | 3,843 |
| Bank and other borrowings | 26 | 170,107 | 43,469 |
| Total current liabilities | | 268,212 | 136,698 |
| **Net current assets** | | 220,085 | 303,423 |
| **Total assets less current liabilities** | | 534,310 | 494,942 |
| **Non-current liabilities** | | | |
| Bank and other borrowings | 26 | 53,500 | 80,843 |
| Lease liabilities | 30 | 144 | – |
| Deferred tax liability | 27 | 11,883 | 9,133 |
| Total non-current liabilities | | 65,527 | 89,976 |
| **Total liabilities** | | 333,739 | 226,674 |
| **NET ASSETS** | | 468,783 | 404,966 |

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 28 | **9,361** | 9,361 |
| Reserves | 29 | **459,422** | 395,605 |
| **TOTAL EQUITY** | | **468,783** | 404,966 |

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

The consolidated financial statements on pages 53 to 108 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

**Wang Qiuping**
*Chairlady*

**Zhao Xiaobao**
*Executive Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | 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** RMB'000 |
| **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 as originally presented** | **9,361** | **130,289** | **190** | **3,028** | **31,248** | **(4,070)** | **234,920** | **404,966** |
| Initial application of HKFRS 16 (note 2.1A) | **–** | **–** | **–** | **–** | **–** | **–** | **10** | **10** |
| Restated balance as at 1 January 2019 | **9,361** | **130,289** | **190** | **3,028** | **31,248** | **(4,070)** | **234,930** | **404,976** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **66,752** | **66,752** |
| Exchange differences arising on transaction of foreign operations | **–** | **–** | **–** | **–** | **–** | **(2,945)** | **–** | **(2,945)** |
| Total profit and other comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **(2,945)** | **66,752** | **63,807** |
| Appropriation to statutory reserves | **–** | **–** | **–** | **–** | **13,763** | **–** | **(13,763)** | **–** |
| **Balance as at 31 December 2019** | **9,361** | **130,289** | **190** | **3,028** | **45,011** | **(7,015)** | **287,919** | **468,783** |

* 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 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax expense | 83,698 | 104,678 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 16,578 | 13,742 |
| Amortisation of prepaid land lease payments | – | 289 |
| Interest income | (296) | (148) |
| Finance costs | 7,909 | 6,132 |
| Expected credit losses on financial assets | 1,640 | 614 |
| Net loss on disposal on property, plant and equipment | 4 | – |
| Operating profit before working capital changes | 109,533 | 125,307 |
| Increase in trade and bills receivables | (36,556) | (60,341) |
| Increase in deposits, prepayments and other receivables | (27,019) | (22,609) |
| Decrease in inventories | 5,019 | 2,261 |
| Increase in trade and bills payables | 3,249 | 46,332 |
| Increase/(decrease) in accruals, deposits received and other payables | 2,700 | (22) |
| Increase in contract liabilities | 764 | 3,761 |
| Cash generated from operations | 57,690 | 94,689 |
| Income taxes paid | (14,871) | (15,950) |
| **Net cash generated from operating activities** | 42,819 | 78,739 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (128,642) | (26,315) |
| Prepayments for property, plant and equipment | (9,082) | (60,257) |
| Interest received | 296 | 148 |
| **Net cash used in investing activities** | (137,428) | (86,424) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 148,804 | 72,580 |
| Repayment of borrowings | (49,509) | (61,834) |
| Restricted cash pledged | (6,310) | (16,116) |
| (Decrease)/increase in amount due to a director | (1,746) | 1,746 |
| Interest paid | (7,909) | (6,132) |
| Payment of lease liabilities | (537) | – |
| **Net cash generated from/(used in) financing activities** | 82,793 | (9,756) |
| **Net decrease in cash and cash equivalents** | (11,816) | (17,441) |
| **Cash and cash equivalents at the beginning of the year** | 89,201 | 108,583 |
| **Effect of exchange rate changes on cash and cash equivalents** | (2,945) | (1,941) |
| **Cash and cash equivalents at the end of the year** | 74,440 | 89,201 |

# 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 at 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 2019 comprise the Company and its subsidiaries (together referred to as "**the Group**"). The consolidated financial statements were authorised for issue by the Directors on 31 March 2020.

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

### 2.1 Adoption of new/revised HKFRSs – effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features with Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

#### *A. HKFRS 16 – Leases*

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("**HKAS 17**"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

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

### 2.1 Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

*A. HKFRS 16 – Leases (Continued)*

(i) Impact of the adoption of HKFRS 16 (Continued)

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows increase:

| | RMB'000 |
|---|---|
| **Statement of financial position as at 1 January 2019** | |
| Right-of-use assets presented in property, plant and equipment | 12,999 |
| Lease liabilities | 951 |
| Retained earnings | 10 |

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

| | RMB'000 |
|---|---|
| **Reconciliation of operating lease commitment to lease liabilities** | |
| Operating lease commitment as of 31 December 2018 | 1,903 |
| Less: short term leases for which lease terms end within 31 December 2019 | (896) |
| Less: future interest expenses | (56) |
| Total lease liabilities as of 1 January 2019 | 951 |
| The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019: | 5.66% |

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

### 2.1 Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

*A. HKFRS 16 – Leases (Continued)*

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased mobile phones, laptop computers and photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

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

### 2.1 Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

*A. HKFRS 16 – Leases (Continued)*

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

### 2.1 Adoption of new/revised HKFRSs – effective 1 January 2019 *(Continued)*

*A. HKFRS 16 – Leases (Continued)*

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

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

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

The following new/revised HKFRSs, potentially relevant to the consolidated 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.

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a Business[1] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[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 2020

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

3 No mandatory effective date yet determined but available for adoption

Except as described below, the directors do not anticipate that the application of the new and revised HKFRSs will have material impact on the Group's financial statements and/or the disclosures to the Group's consolidated financial statements.

*A. Amendments to HKFRS 3 – Definition of a Business*

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

*B. Amendments to HKAS 1 and HKAS 8 – Definition of Material*

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

## 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

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars ("**HKD**"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("**RMB**"), unless otherwise stated.

## 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. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.3 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes as described below, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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.

Property, plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight-line method. 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 |
| Furniture, fixtures and office equipment | 3–5 years |

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.

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. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.4 Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

*(i) Right-of-use asset*

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

*(ii) Lease liability*

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.5 Leasing (accounting policies applied until 31 December 2018)

*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.

### 4.6 Prepaid land lease payments

Payments for land lease payment represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

### 4.7 Financial Instruments

*(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.

<u>Debt instruments</u>

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 OCI. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.7 Financial Instruments *(Continued)*

*(i) Financial assets (Continued)*

Debt instruments (Continued)

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.

*(ii) Impairment loss on financial assets*

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade and bills receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.7 Financial Instruments *(Continued)*

*(ii) Impairment loss on financial assets (Continued)*

For other debt financial assets, the ECLs are based on the 12-months 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 ECL, 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.

*(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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.7 Financial Instruments *(Continued)*

*(iii) Financial liabilities (Continued)*

Financial liabilities at fair value through profit or loss (Continued)

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.

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.

*(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.

*(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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.7 Financial Instruments *(Continued)*

*(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.

### 4.8 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. 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

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes. Revenue is recognised when performance obligation is satisfied.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.9 Revenue recognition *(Continued)*

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 systems products*

Customers obtain control of the optical fiber cables, communication copper cables and structured systems 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 systems products. There is generally only one performance obligation. Invoices are usually payable within 180-360 days.

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets. Based on historical data, the Group does not recognise the provision of contract consideration for this warranty.

*Contract liabilities*

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*

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)*

The functional currencies of the Company and certain subsidiaries are currencies other than the RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each reporting period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### 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;
- prepayment on property, plant and equipment; 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 depreciated cost under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.13 Impairment of assets (other than financial assets) *(Continued)*

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.

### 4.15 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 Research and developments costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 4.17 Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(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 Company's parent.

(c) 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 payments in accordance with the accounting policies stated in Notes 4.3 and 4.6 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) 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.

### (iv) Fair value measurement

The fair value measurement of the Group's investment properties, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the "**fair value hierarchy**"):

– Level 1: Quoted prices in active markets for identical items (unadjusted);

– Level 2: Observable direct or indirect inputs other than Level 1 inputs;

– Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

## 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) Communication Copper Cables; (b) Optical Fiber Cables; (c) Structured Cabling System Products:

### (a) Communication Copper Cables

Communication copper cable is a general term which those electric cables which are mainly made by copper as the main conductive body of the cables. These cables are used widely; it can be used in transmission and distribution of electric energy, which normally used in the city's underground electric network, power station as an extraction line, also can be found in the industrial and mining enterprises for the internal power supply and over the river or sea of underwater transmission lines; or it can also be used as the network cabling for residential and commercial buildings.

### (b) Optical Fiber Cables

Optical fiber cable is a similar product with copper cable, but it is an enhanced version. The optical fiber cables are also used in telecommunications, network operators, ratio network and etc, but the useful life, safety conditions, speed and stability of transmission of optical fiber cables are much better than copper cables. Also the weight and size are much smaller than copper cables too, hence optical fiber cable is the new trend as a replacement of copper cable. However, copper cables is still widely use in connecting the personal computer and other electronic devices, hence copper cables although is been replaced by optical fiber cables, but in fact it can't be 100% replaced and will continuously attribute in the cable markets in the future.

### (c) Structured cabling system products

Since the Group operated in the electric cable wires business, and they found the demand of structured cabling system products is increasing in each year in the PRC market. Nowadays, more commercial buildings and residential units are built in modern style, hence the requirement of interior electronic applicable products is also boost up and towards a more 'intelligent' way. As a result, the structured cabling system products sales increased significantly, especially in those better developed cities, such as Beijing, Shanghai and etc.

## 6. SEGMENT REPORTING *(CONTINUED)*

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

### (i) Business Segments

| | Year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Optical fiber cables RMB'000 | Communication copper cables RMB'000 | Structured cabling system products RMB'000 | Total RMB'000 |
| Reportable segment revenue | **241,870** | **309,308** | **217,144** | **768,322** |
| Reportable segment profit | **20,941** | **38,776** | **58,501** | **118,218** |

| | Year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | Optical fiber cables RMB'000 | Communication copper cables RMB'000 | Structured cabling system products RMB'000 | Total RMB'000 |
| Reportable segment revenue | 316,160 | 290,596 | 178,241 | 784,997 |
| Reportable segment profit | 50,599 | 36,098 | 48,459 | 135,156 |

### (ii) Reconciliation of profit or loss

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Segment results | **118,218** | 135,156 |
| Other income | **715** | 371 |
| Unallocated expenses | **(27,326)** | (24,717) |
| Finance costs | **(7,909)** | (6,132) |
| | **83,698** | 104,678 |
| Income tax expense | **(16,946)** | (19,685) |
| Profit after taxation | **66,752** | 84,993 |

## 6. SEGMENT REPORTING *(CONTINUED)*

### (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**").

### (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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Customer A | 270,956 | 355,708 |
| Customer B | 181,817 | 195,369 |

## 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Optical fiber cables | 241,870 | 316,160 |
| Communication copper cables | 309,308 | 290,596 |
| Structured cabling system products | 217,144 | 178,241 |
| | 768,322 | 784,997 |
| **Geographical markets:** | | |
| Mainland China | 768,322 | 784,997 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | 768,322 | 784,997 |

## 7. REVENUE *(CONTINUED)*

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade and bills receivables (note 20) | **264,626** | 229,710 |
| Contract liabilities (note 24) | **4,525** | 3,761 |

## 8. OTHER INCOME

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Other income:** | | |
| Bank interest income | **296** | 148 |
| Others | **419** | 223 |
| | **715** | 371 |

## 9. FINANCE COSTS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Interest charge on bank and other borrowings | **15,788** | 6,132 |
| Interest on lease liabilities | **62** | – |
| Less: Amount capitalised | **(7,941)** | – |
| | **7,909** | 6,132 |

## 10. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Auditors' remuneration | **1,080** | 915 |
| Amortisation of prepaid land lease payments (note i) | **–** | 289 |
| Cost of inventories recognized as cost of sales | **583,907** | 588,544 |
| Transportation expense | **16,308** | 17,516 |
| Research and development expenditure | **23,424** | 24,837 |
| Depreciation of property, plant and equipment | **16,578** | 13,742 |
| Total minimum lease payments for leases previously classified as operating leases under HKAS 17 | **–** | 1,787 |
| Expected credit losses on financial assets | **1,640** | 614 |
| Interest on lease liabilities | **62** | – |
| Short-term leases expenses | **1,597** | – |
| Staff costs (including directors' emoluments – Note 14): | | |
| – Salaries and wages | **41,792** | 35,489 |
| – Defined contribution scheme (Note ii) | **6,110** | 5,425 |
| | **47,902** | 40,914 |

Note:

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

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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Current tax – Hong Kong Profits Tax** | | |
| Tax for the current year | – | – |
| **Current tax – PRC EIT** | | |
| Tax for the current year | 14,196 | 16,654 |
| **Deferred tax (Note 27)** | | |
| Charge to profit or loss for the year | 2,750 | 3,031 |
| | 16,946 | 19,685 |

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 2019 (2018: RMB 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 year ended 31 December 2019 and 2018, as it was awarded high-technology status by tax authority.

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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Profit before income tax expense** | 83,698 | 104,678 |
| Tax calculated at the applicable tax rate of 25% (2018: 25%) | 20,925 | 26,170 |
| Effect of different tax rates | (10,391) | (11,227) |
| Tax effect of expenses not deductible for tax purposes | 200 | 580 |
| Effect attributable to the additional qualified tax deduction relating to research and development costs | (1,757) | (1,829) |
| Deferred tax on undistributed earnings of PRC subsidiaries | 3,111 | 3,031 |
| Effect of tax losses not recognised | 4,858 | 2,934 |
| Others | – | 26 |
| Income tax expense | 16,946 | 19,685 |

## 12. DIVIDENDS

No dividend was paid or proposed during the year of 2019, nor has any dividend been proposed since the end of reporting period (2018: RMB 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 RMB66,752,000 (2018: approximately RMB84,993,000) and the weighted average of 1,100,000,000 shares (2018: 1,100,000,000 shares) in issue during the year, calculated as follows:

| | 2019<br>RMB | 2018<br>RMB |
|---|---|---|
| **Earnings per share** | | |
| Basic earnings per share | **0.061** | 0.077 |
| **Number of share** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **1,100,000,000** | 1,100,000,000 |

There were no potential dilutive ordinary shares during the years ended 31 December 2019 and 2018 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<br>RMB'000 | Salaries, allowance and other benefits<br>RMB'000 | Discretionary bonus<br>RMB'000 | Defined contribution scheme<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | |
| *Chairlady* | | | | | |
| Wang Qiu Ping | 702 | 433 | 621 | 80 | 1,836 |
| *Executive directors* | | | | | |
| Zhao Xiao Bao | 702 | 433 | 621 | 79 | 1,835 |
| Zhao Moge | 606 | 151 | 234 | 30 | 1,021 |
| *Non-executive director* | | | | | |
| Ms. Jiang Xuefeng (note i) | – | – | – | – | – |
| *Independent non-executive directors* | | | | | |
| Cheng Shing Yan | 120 | – | – | – | 120 |
| Liu Guodong | 120 | – | – | – | 120 |
| Xie Haidong | 120 | – | – | – | 120 |
| | 2,370 | 1,017 | 1,476 | 189 | 5,052 |

## 14. DIRECTORS' EMOLUMENTS *(CONTINUED)*

| | 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 |

Note:

(i) Ms. Jiang Xuefeng was appointed as a non-executive Director on 5 November 2019.

(ii) The discretionary bonus was determined on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics.

(iii) 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 2019 (2018: Nil). No directors waived or agreed to waive any emoluments during the year ended 31 December 2019 (2018: Nil).

## 15. THE FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2018: three) were directors of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining two (2018: two) individuals were as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Salaries and other emoluments | 1,260 | 1,099 |
| Discretionary bonuses | 306 | 254 |
| Defined contribution scheme | 40 | 37 |
| | 1,606 | 1,390 |

The number of the highest paid non-directors fell within the following emolument band:

| | 2019<br>Number of<br>individuals | 2018<br>Number of<br>individuals |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |
| Nil to HK$1,000,000 | 1 | 1 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress RMB'000 | Land and buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and office equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **As at 31 December 2017 and 1 January 2018** | – | 64,261 | 90,512 | 2,168 | 3,423 | 160,364 |
| Additions | 572 | 3,098 | 16,105 | – | 6,540 | 26,315 |
| Disposals | – | – | – | – | – | – |
| **As at 31 December 2018 as originally presented** | **572** | **67,359** | **106,617** | **2,168** | **9,963** | **186,679** |
| Initial application of HKFRS 16 | **–** | **15,395** | **–** | **–** | **–** | **15,395** |
| **Restated balance as at 1 January 2019** | **572** | **82,754** | **106,617** | **2,168** | **9,963** | **202,074** |
| Additions | **125,788** | **1,451** | **278** | **166** | **1,273** | **128,956** |
| Disposals | **–** | **–** | **–** | **(64)** | **–** | **(64)** |
| **As at 31 December 2019** | **126,360** | **84,205** | **106,895** | **2,270** | **11,236** | **330,966** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **As at 31 December 2017 and 1 January 2018** | – | 11,794 | 37,481 | 1,397 | 2,752 | 53,424 |
| Depreciation | – | 3,347 | 8,800 | 279 | 1,316 | 13,742 |
| **As at 31 December 2018 as originally presented** | **–** | **15,141** | **46,281** | **1,676** | **4,068** | **67,166** |
| Initial application of HKFRS 16 | **–** | **2,396** | **–** | **–** | **–** | **2,396** |
| **Restated balance as at 1 January 2019** | **–** | **17,537** | **46,281** | **1,676** | **4,068** | **69,562** |
| Depreciation | **–** | **4,671** | **9,191** | **318** | **2,398** | **16,578** |
| Disposal | **–** | **–** | **–** | **(60)** | **–** | **(60)** |
| **As at 31 December 2019** | **–** | **22,208** | **55,472** | **1,934** | **6,466** | **86,080** |
| **NET BOOK VALUE** | | | | | | |
| **As at 31 December 2019** | **126,360** | **61,997** | **51,423** | **336** | **4,770** | **244,886** |
| **As at 31 December 2018** | 572 | 52,218 | 60,336 | 492 | 5,895 | 119,513 |

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.

Buildings and structures which are held for own use is situated in the PRC. At 31 December 2019 and 2018, land and buildings with carrying amounts of RMB61,331,000 (2018: Nil), were pledged as collateral for Group's bank and other borrowings (Note 26(ii)).

## 16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

| | Land and buildings RMB'000 |
|---|---|
| **Right-of-Use assets** | |
| At 1 January 2019 | 12,999 |
| Addition | 314 |
| Depreciation | (948) |
| **At 31 December 2019** | 12,365 |

## 17. PREPAID LAND LEASE PAYMENTS

| | Total RMB'000 |
|---|---|
| **Cost** | |
| **As at 31 December 2018 as originally presented** | 14,435 |
| Initial application of HKFRS 16 (note 2.1(A)) | (14,435) |
| **As at 1 January 2019 and 31 December 2019** | – |
| **Amortisation** | |
| **As at 1 January 2018** | 2,108 |
| Amortisation | 289 |
| **As at 31 December as originally presented** | 2,397 |
| Initial application of HKFRS 16 (note 2.1(A)) | (2,397) |
| **As at 1 January 2019 and 31 December 2019** | – |
| **Net book value** | |
| **As at 31 December 2019** | – |
| **As at 31 December 2018** | 12,038 |

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Analysed for reporting purpose as:** | | |
| Non-current | – | 11,749 |
| Current | – | 289 |
| | – | 12,038 |

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Prepayment for property, plant and equipment | 65,943 | 56,861 |
| Prepayment for intangible assets | 3,396 | 3,396 |
| | 69,339 | 60,257 |

## 19. INVENTORIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Raw materials | 19,402 | 29,798 |
| Finished goods | 46,186 | 40,809 |
| | 65,588 | 70,607 |

## 20. TRADE AND BILLS RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables | 266,784 | 231,799 |
| Bills receivables (Note) | 1,892 | 321 |
| | 268,676 | 232,120 |
| Less: Loss allowance | (4,050) | (2,410) |
| | 264,626 | 229,710 |

Note: Bills receivables represented outstanding commercial acceptance bills.

## 20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 1 month | 90,273 | 63,231 |
| More than 1 month but within 2 months | 75,971 | 61,384 |
| More than 2 months but within 3 months | 52,490 | 39,281 |
| More than 3 months but within 6 months | 39,220 | 60,059 |
| More than 6 months but within 1 year | 6,369 | 5,344 |
| More than 1 year | 303 | 411 |
| | 264,626 | 229,710 |

The Group recognised expected credit losses based on the accounting policy stated in Note 4.7(ii).

The credit term granted by the Group to its trade customers is normally 180 days to 360 days. Further details on the Group's credit policy are set out in Note 39(b).

## 21. RESTRICTED CASH

Bank deposits have been pledged as security for bank borrowings (Note 26) and bills payables (Note 23). The restricted cash will be released upon the settlement of relevant bank borrowings and 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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade payables | 52,928 | 36,399 |
| Bills payables | 19,036 | 32,316 |
| | 71,964 | 68,715 |

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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within 1 month | 43,497 | 27,534 |
| More than 1 month but within 2 months | 9,311 | 9,427 |
| More than 2 months but within 3 months | 5,700 | 760 |
| More than 3 months but within 6 months | 6,648 | 30,450 |
| More than 6 months but within 1 year | 6,262 | 382 |
| More than 1 year | 546 | 162 |
| | 71,964 | 68,715 |

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

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Neither past due | 70,371 | 68,524 |
| Overdue for less than 1 year | 1,593 | 191 |
| | 71,964 | 68,715 |

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

## 24. CONTRACT LIABILITIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Contract liabilities arising from: | | |
| Sale of goods | **4,525** | 3,761 |
| | **4,525** | 3,761 |

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Balance as at 1 January | **3,761** | 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) | **(3,761)** | (3,080) |
| Increase in contract liabilities as a result of billing in advance of sales of goods (note 7) | **4,525** | 3,761 |
| Balance at 31 December | **4,525** | 3,761 |

## 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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Bank borrowings: | | |
| – Secured (i), (ii), (iii), (iv) & (v) | **120,000** | 9,982 |
| – Unsecured (i), (iii), (iv) & (v) | **10,000** | – |
| | **130,000** | 9,982 |
| Other borrowing: | | |
| – Secured (iii) & (iv) | **93,607** | 80,843 |
| – Unsecured (iv) | **–** | 33,487 |
| | **223,607** | 124,312 |

## 26. BANK AND OTHER BORROWINGS *(CONTINUED)*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| On demand or within one year | 170,107 | 43,469 |
| More than one year, but not exceeding two years | 3,080 | 80,843 |
| More than two years, but not exceeding three years | 7,500 | – |
| More than three years, but not exceeding four years | 6,160 | – |
| More than four years, but not exceeding five years | 7,700 | – |
| More than five years, but not exceeding six years | 29,060 | – |
| | 223,607 | 124,312 |

Notes:

(i) The bank borrowings with effective interest rate is 4.98% (2018: 5.66%) per annum.

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Land and buildings (Note 16) | 61,331 | – |
| Bank deposits (Note 21) | 10,000 | – |
| | 71,331 | – |

(iii) As at 31 December 2019 and 2018, guarantees were provided by the controlling shareholders and their associates for the bank and other borrowings.

(iv) All the bank borrowings were denominated in RMB and other borrowing was denominated in HK dollars and RMB.

(v) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2019 and 2018 set out below:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Amounts granted | 130,000 | 10,000 |
| Amounts utilised | 130,000 | 10,000 |

## 27. DEFERRED TAX LIABILITY

| | Allowance for doubtful debts RMB'000 | Withholding tax on undistributed earnings RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 1 January 2018** | (261) | 6,363 | 6,102 |
| Charge for the year (Note 11) | (47) | 3,078 | 3,031 |
| **As at 31 December 2018 and 1 January 2019** | **(308)** | **9,441** | **9,133** |
| Charge for the year (Note 11) | **(361)** | **3,111** | **2,750** |
| **As at 31 December 2019** | **(669)** | **12,552** | **11,883** |

As at 31 December 2019, the Group had unused tax losses of approximately RMB23,099,000 (2018: approximately RMB12,518,000), 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.

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Number '000** | **Amount RMB'000** | Number '000 | Amount RMB'000 |
| Authorised: | | | | |
| As at 1 January and 31 December | **3,000,000** | **25,534** | 3,000,000 | 25,534 |
| Issued and fully paid: | | | | |
| As at 1 January and 31 December | **1,100,000** | **9,361** | 1,100,000 | 9,361 |

As at 31 December 2019 and 2018, the authorized share capital of the Company comprises 3,000,000,000 ordinary shares with par value of HK$0.01 per share.

## 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 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. Also, 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.

### 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. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2.1(A)(iv). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4.4.

### Nature of leasing activities (in the capacity as lessee)

The group leases a number of properties for the purpose of offices in the PRC and Hong Kong.

### Right-of-use assets

| | 31 December 2019 RMB | 1 January 2019 RMB |
|---|---|---|
| Ownership interests in prepaid land, carried at fair value with remaining lease term of: | | |
| Between 10 and 50 years | 11,699 | 12,038 |
| Other properties leased for own use, carried at depreciated cost | 666 | 961 |

The carrying amount of lease liabilities and the movements during the year are as follows:

| | Land use rights RMB'000 |
|---|---|
| **At 31 December 2018 as originally presented** | – |
| Initial application of HKFRS 16 | 951 |
| **Restated balance as at 1 January 2019** | 951 |
| Addition | 314 |
| Interest expense | 62 |
| Lease payments | (599) |
| **At 31 December 2019** | 728 |

## 30. LEASES *(CONTINUED)*

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and at the date of transition to HKFRS 16:

| | 31 December 2019 | | 1 January 2019 | |
|---|---|---|---|---|
| | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Within 1 year | 584 | 608 | 901 | 945 |
| After 1 year but within 2 years | 130 | 133 | 50 | 62 |
| After 2 year but within 5 years | 14 | 19 | – | – |
| After 5 years | – | – | – | – |
| | 144 | 152 | 50 | 62 |
| | 728 | 760 | 951 | 1,007 |
| Less: total future interest expenses | | (32) | | (56) |
| Present value of lease liabilities | | 728 | | 951 |

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See note 2.1(A)(iv) for further details about transition.

The present value of future lease payments are analysed as:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current liabilities | 584 | 901 |
| Non-current liabilities | 144 | 50 |
| | 728 | 951 |

| | 2019 RMB'000 |
|---|---|
| Short term lease expense | 1,597 |
| Low value lease expense | – |

## 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 | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Investment in a subsidiary | | 66 | 66 |
| Fixtures and furniture | | 7 | 11 |
| | | 73 | 77 |
| **Current assets** | | | |
| Amounts due from subsidiaries | (i) | 202,122 | 125,861 |
| Other receivables | | 154 | – |
| Cash and cash equivalents | | 151 | 80,952 |
| | | 202,427 | 206,813 |
| **Current liabilities** | | | |
| Amounts due to a subsidiary | (i) | 70 | – |
| Other payables and Accruals | | 3,095 | 4,570 |
| Other borrowings | | 86,107 | – |
| | | 89,272 | 4,570 |
| **Net current assets** | | 113,155 | 202,243 |
| **Non-current liabilities** | | | |
| Other borrowings | | – | 80,843 |
| **Net assets** | | 113,228 | 121,477 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | 9,361 | 9,361 |
| Reserves | (ii) | 103,867 | 112,116 |
| **Total equity** | | 113,228 | 121,477 |

On behalf of the directors:

**Wang Qiuping**
*Director*

**Zhao Xiaobao**
*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 56 of this report.

Notes:

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

(ii) Movements in reserves

| | Share premium RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Balance at 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 at 31 December 2018 and 1 January 2019** | 130,289 | 4,221 | (22,394) | 112,116 |
| Loss for the year | – | – | (10,332) | (10,332) |
| Exchange differences arising on transaction of foreign operations | – | 2,083 | – | 2,083 |
| **Balance at 31 December 2019** | **130,289** | **6,304** | **(32,726)** | **103,867** |

## 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 | Issued and fully paid share capital/registered capital | 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 Communication Group (HK) Limited (Formerly named as Putian Group (HK) Investment Ltd) 普天通信集團（香港）有限公司 (前稱：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 |

## 33. INTEREST IN SUBSIDIARIES *(CONTINUED)*

| Name of subsidiary# | Form of business structure | Place of incorporation/ operation and principal activity | Issued and fully paid share capital/registered capital | Percentage of ownership interests/ voting rights/ profit share |
|---|---|---|---|---|
| Interests held indirectly (Continued) | | | | |
| 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 | RMB201,000,000 | 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 | RMB86,000,000 | 100 |
| Putian Cable Group Communication Technology Co., Ltd. (Formerly named as Jiangxi Putian Building Intelligence Co., Ltd) ("**Putian Technology**") (普天線纜集團通信科技有限公司) ^ (前稱：江西普天樓宇智能有限公司) | Corporation | Sales of structured cabling system products in the PRC | RMB50,000,000 | 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 |
| Jiangxi Putian Intelligent Technology Collaborative Innovation Co., Ltd ("**Jiangxi Intelligent**") (江西普天智能科技協同創新有限公司) | Corporation | Dormant company in the PRC | RMB80,000,000 | 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. OPERATING LEASE COMMITMENT

The Group leases premises 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<br>RMB'000 |
|---|---|
| **Rented premises:** | |
| – Within one year | 1,249 |
| – In the second to fifth year, inclusive | 654 |
| | 1,903 |

## 35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in Group's liabilities arising from financing activities.

| | Amount due to director<br>RMB'000 | Bank and other borrowings<br>RMB'000 | Lease liabilities<br>RMB'000 |
|---|---|---|---|
| **At 1 January 2018** | – | 113,566 | – |
| Cash flows: | | | |
| – Proceeds from borrowings | – | 72,580 | – |
| – Repayment of borrowings | – | (61,834) | – |
| – Advance from a director | 1,746 | – | – |
| – Interest paid | – | (6,132) | – |
| Non-cash flows: | | | |
| – Interest expenses | – | 6,132 | – |
| **At 31 December 2018 as originally presented** | 1,746 | 124,312 | – |
| Initial application of HKFRS 16 | – | – | 951 |
| **Restated balance as at 1 January 2019** | 1,746 | 124,312 | 951 |
| Cash flows: | | | |
| – Proceeds from borrowings | – | 148,804 | – |
| – Repayment of borrowings | – | (49,509) | – |
| – Repayment to a director | (1,746) | – | – |
| – Interest paid | – | (7,847) | (62) |
| – Payment of lease liabilities | – | – | (537) |
| Non-cash flows: | | | |
| – Commence of lease | – | – | 314 |
| – Capitalised borrowing costs | – | (7,941) | – |
| – Interest expenses | – | 15,788 | 62 |
| **At 31 December 2019** | – | 223,607 | 728 |

## 36. CAPITAL COMMITMENTS

| | 2019<br>RMB'000 | 2018<br>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 asset | 86,169 | 9,500 |

## 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.

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade and bills payables | 71,964 | 68,715 |
| Accruals, deposit received and other payables | 17,864 | 15,164 |
| Contract liabilities | 4,525 | 3,761 |
| Amounts due to shareholders | – | 1,746 |
| Lease liabilities | 728 | – |
| Borrowings | 223,607 | 124,312 |
| Less: Cash and cash equivalents | (74,440) | (89,201) |
| Net debt | 244,248 | 124,497 |
| Equity | 468,783 | 404,966 |
| **Capital and net debt** | 713,031 | 529,463 |
| Gearing ratio | 34.3% | 23.5% |

## 38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost: | | |
| Trade, bills and other receivables | 300,486 | 232,810 |
| Restricted cash | 22,476 | 16,166 |
| Cash and cash equivalents | 74,440 | 89,201 |
| **Financial liabilities** | | |
| Amortised costs: | | |
| Trade, bills and other payables | 86,825 | 83,052 |
| Bank and other borrowings | 223,607 | 124,312 |
| Lease liabilities | 728 | – |
| Amount due to a director | – | 1,746 |

## 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 will monitor interest rate exposure from time to time 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.

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 2019 and 2018 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.

## 39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (a) Interest rate risk *(Continued)*

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):

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Change in profit after tax and retained profits:** | | |
| +/-100 basis points | -/+ – | -/+320 |

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 as stated in the consolidated statements of financial position.

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 receivable at the end of the 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 directors of the Company consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

The credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 31 December 2019 and 2018 amounted to RMB162,805,000 and RMB161,484,000 respectively, and accounted for 61.5% and 70.3% of the Group's gross trade and bills receivables. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

## 39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (b) Credit risk *(Continued)*

- Actual or expected significant changes in the operating results of individual property owner or the borrower
- Significant increases in credit risk on the other financial instruments of the individual property owner or the same borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

The Group applies the simplified and general approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and bills receivables and 12-month expected credit losses for other receivables (excluding prepayments).

In measuring the expected credit losses, the trade and bills receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As at 31 December 2019 and 2018, the loss allowance provision for the remaining balances was determined as follows. The expected credit losses below also incorporated forward looking information.

| **Trade and bills receivables** | **Current (not past due)** | **1-30 days past due** | **31-60 days past due** | **More than 60 days past due** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Expected credit loss rate | **1.1%** | **–** | **25.3%** | **84.1%** | |
| Gross carrying amount (RMB'000) | **267,338** | **–** | **216** | **1,122** | **268,676** |
| Loss allowance provision (RMB'000) | **3,052** | **–** | **55** | **943** | **4,050** |
| At 31 December 2018 | | | | | |
| Expected credit loss rate | 1.0% | 5.1% | 6.1% | 15.5% | |
| Gross carrying amount (RMB'000) | 230,471 | 613 | 379 | 657 | 232,120 |
| Loss allowance provision (RMB'000) | 2,254 | 31 | 23 | 102 | 2,410 |

## 39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (b) Credit risk *(Continued)*

As at 31 December 2019 and 2018, the loss allowance provision for trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

| | **Trade and bills receivables** RMB'000 | **Total** RMB'000 |
|---|---|---|
| At 1 January 2019 | **2,410** | **2,410** |
| Provision for loss allowance recognised in profit or loss | **1,640** | **1,640** |
| At 31 December 2019 | **4,050** | **4,050** |
| At 1 January 2018 | 1,796 | 1,796 |
| Provision for loss allowance recognised in profit or loss | 614 | 614 |
| At 31 December 2018 | 2,410 | 2,410 |

As at 31 December 2019 and 2018, the gross carrying amount of trade and bills receivables was RMB268,676,000 and RMB232,120,000 respectively and thus the maximum exposure to loss was RMB4,050,000 and RMB2,410,000 respectively.

The increase (2018: increase) in the loss allowance of trade and bills receivables was due to the following significant changes in the gross carrying amount:

– Increase in the loss allowance of RMB1,640,000 (2018: RMB 614,000) as a result of a net increase in the gross carrying amount after the settlement of trade and bills receivables and origination of new trade and bills receivables

### (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.

## 39. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### (c) Liquidity risk *(Continued)*

| | Carrying amount RMB'000 | Total contractual undiscounted cash flows RMB'000 | Within one 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 2019** | | | | | |
| Trade, bills and other payables | **86,825** | **86,825** | **86,825** | **–** | **–** |
| Bank and other borrowings | **223,607** | **240,508** | **181,550** | **21,626** | **37,332** |
| Lease liabilities | **728** | **760** | **608** | **133** | **19** |
| | **311,160** | **328,093** | **268,983** | **21,759** | **37,351** |
| **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 | – |

### (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 currency other than the functional currency of the entity to which they relate.

The following table details the Group's exposure as at 31 December 2019 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.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **USD Denominated in RMB'000** | **HKD Denominated in RMB'000** | USD Denominated in RMB'000 | HKD Denominated in RMB'000 |
| Cash and cash equivalents | **507** | **1,640** | 51 | 82,146 |
| Bank and other borrowings | **–** | **(86,107)** | – | (80,843) |
| | **507** | **(84,467)** | 51 | 1,303 |

## 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.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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% | 25 | 5% | 3 |
| | (5)% | (25) | (5)% | (3) |
| HKD | 5% | (4,223) | 5% | 65 |
| | (5)% | 4,223 | (5)% | (65) |

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 at 31 December 2018 has been performed on the same basis.

## 40. EVENTS AFTER THE END OF REPORTING DATE

Following the outbreak of the novel coronavirus (COVID-19) epidemic in China in early 2020, the business operation and the overall economy of the PRC have been adversely affected. The Board expects that the COVID-19 outbreak may bring negative effect on the Group's business. However, due to the dynamic nature of the COVID-19 epidemic, the extent of its impact on the Group's business and financial position in 2020 cannot be estimated. The Board is closely monitoring the development of, and the disruptions to the PRC economy caused by, the COVID-19 epidemic and will timely assess and react actively to its impact on the operation and financial performance of the Group.

## 41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on 31 March 2020.