

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



2020
INTERIM REPORT

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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Lai Yeung Fun

AUTHORISED REPRESENTATIVES

Ms. Wang Qiuping
Ms. Lai Yeung Fun

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

AUDITOR

BDO Limited

LEGAL ADVISER AS TO HONG KONG LAWS

King & Wood Mallesons

PRINCIPAL BANKERS

Bank of Communication (Jiangxi Branch)
Bank of China (Nanchang Xihu Branch)
China Everbright Bank Co., Ltd

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

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 systems products are components of the wiring system, including optical fiber-based cabling system and copper-based cabling 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 enabled 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 shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing**”). As of 30 June 2020, the Company had 1,100,000,000 issued shares.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020 (the “**Period**”), the Group’s operating results were summarised as follows:

- Total revenue decreased by approximately 31.4% to approximately RMB228.1 million (Six months ended 30 June 2019 (the “**Last Period**”): approximately RMB332.6 million).
- Gross profit decreased by approximately 31.8% to approximately RMB51.5 million (the Last Period: approximately RMB75.5 million).
- Gross profit margin slightly decreased by approximately 0.1% to approximately 22.6% (the Last Period: approximately 22.7%).
- Profit for the Period attributable to owners of the Company decreased by approximately 52.3% to approximately RMB12.3 million (the Last Period: approximately RMB25.8 million).
- Revenue generated from sale of optical fiber cables decreased by approximately 40.6% to approximately RMB67.6 million (the Last Period: approximately RMB113.9 million); revenue generated from sale of structured cabling system products decreased by approximately 18.3% to approximately RMB64.3 million (the Last Period: approximately RMB78.7 million); and revenue generated from sale of communication copper cables decreased by approximately 31.2% to approximately RMB96.2 million (the Last Period: approximately RMB139.9 million).
- The board of directors of the Company (the “**Board**”) did not recommend the payment of an interim dividend for the Period (the Last Period: Nil).



BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Period. It recorded a revenue of approximately RMB228.1 million which represented a decline of approximately 31.4% as compared with the one for the Last Period. The Group has realized a gross profit of approximately RMB51.5 million for the Period, which represented a decline of approximately 31.8% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB12.3 million, which represented a decline of approximately 52.3% as compared with the one for the Last Period.

The Group has recorded a decrease in the sale of each business segment. Sale of optical fiber cables decreased by approximately 40.6% to approximately RMB67.6 million (the Last Period: approximately RMB113.9 million). The sale of structured cabling system products decreased by approximately 18.3% to approximately RMB64.3 million (the Last Period: approximately RMB78.7 million). Revenue generated from sale of communication copper cables decreased by approximately 31.2% from approximately RMB139.9 million for the Last Period to approximately RMB96.2 million for the Period.

In the first half of 2020, the outbreak of COVID-19 swept the world and spread all over the world. The communications network industry is faced with the crisis and opportunity brought about by the new coronary pneumonia epidemic at the same time.

In China, the communications network industry has inevitably been affected by the short-term impact in the number of new 5G users and the construction of 5G base stations in the first quarter of 2020 due to the lockdown of certain cities at the beginning of the year. Given that the outbreak in China was detected at an early stage, the government quickly carried out a strong and all-round anti-epidemic deployment, from the second quarter of 2020, the national epidemic situation appeared a positive trend and the communications network industry began to recover. With the implementation of China's proposed new infrastructure policies (including 5G infrastructure, large data centers, artificial intelligence, industrial internet construction, etc.), major telecommunication operators' 5G construction and the government's new infrastructure network construction have been commenced which lead to the demand of communication products to a peak.

On 4 March 2020, the Politburo of China held a Standing Committee Meeting, emphasizing the need to speed up the resumption of production and expand domestic demand from consumption, traditional infrastructure and new infrastructure, including new infrastructure focus on seven areas, namely, 5G, ultra-high voltage, high-speed rail, new energy vehicle charging piles, large data centers, artificial intelligence and industrial Internet. The meeting clearly defined the development direction of the communications network industry. The new infrastructure policy closely linked to the communication network industry of optical fiber cable, communication copper cable and structured cabling system products industries, which is expected to stimulate the market demand. Upon the COVID-19 epidemic subsided, the communication cable industry will usher in a window period in its development. The industry's prospects continue to stabilize to good.

In the first half of 2020, due to the outbreak of COVID-19, some communications construction projects slowed or even suspended for a short period of time in the first quarter of 2020 and gradually returned to normal in the second quarter of 2020. After the outbreak, major communication network operators in China started to speed up communication network construction to fulfill a larger number of uncomplete sale orders placed in the last year. In August 2020, Putian Cable Group Co., Ltd* (普天纜纜集團有限公司) (“**Putian Cable**”), a wholly-owned subsidiary of the Company won a bid in China Telecom Corporation Limited’s centralized procurement project of multicore and symmetrical pair cables for digital communications for 2020 and the awarded bid amount is approximately RMB109.2 million. This is another accomplishment of the Group after its construction of optical fiber production plant, which indicates the Group’s advanced position in the transmission field of the communication industry in China.

OUTLOOK

2020 is a year of industrial development led by the new infrastructure. New generation of information and communication technology including data centers and 5G accelerates the transformation of economic development from the basic driving force to the core engine. The Group is optimistic about 5G demand. In order to meet the requirements of high-frequency bandwidth, low latency and high reliability of 5G network, the Group will (i) focus on the development of optical fiber cable based 5G communications network products and solutions as well as product innovation and development; (ii) introduce first-class research and development team; and (iii) actively respond to industry changes.

The Group plans to make full use of its product competitive edge and market advantage in the communications networks field and further penetrate into the downstream industries, i.e. structured cabling system products, data center infrastructure and new smart city construction, to enhance its comprehensive capacity of the smart application solution and business operation in the communication industry to capture opportunities of 5G-related industries.

In addition, the Group’s optical fiber production plant is expected to complete its construction and commence into production in the late 2020 and then bring in an annual production capacity of approximately five million kilometers of fiber. The Group has accumulated experiences in the optical fiber production in the upstream sectors and make use of its production capacity and technology to extend its business into the application field in the downstream industries. The business diversification in the downstream applications fields will provide directions and data sources to the research and development and manufacturing in the upstream business.

2020 is the year of 5G scale deployment. The Group will seize the opportunity to rise to the top, firmly forward, to meet the advent of the Era of the Internet of Everything.



FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fiber cables, communication copper cables and structured cabling system products, which are three reportable segments. Revenue of the Group decreased by approximately 31.4% from approximately RMB332.6 million for the Last Period to approximately RMB228.1 million for the Period. Among which, revenue derived from sale of optical fiber cables decreased by approximately 40.6% from approximately RMB113.9 million for the Last Period to approximately RMB67.6 million for the Period; revenue derived from sale of structured cabling system products decreased by approximately 18.3% from approximately RMB78.7 million for the Last Period to approximately RMB64.3 million for the Period; and revenue derived from sale of communication copper cables decreased by approximately 31.2% from approximately RMB139.9 million for the Last Period to approximately RMB96.2 million for the Period.

Gross profit and margin

Gross profit decreased by approximately 31.8% to approximately RMB51.5 million for the Period from approximately RMB75.5 million for the Last Period, while the Group's gross profit margin remained stable at approximately 22.6% for the Period as compared to the one of approximately 22.7% for the Last Period.

Other income

Other income increased by approximately 11.6% from approximately RMB284,000 for the Last Period to approximately RMB317,000 for the Period, primarily attributable to an increase in government grant received.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 21.9% from approximately RMB20.1 million for the Last Period to approximately RMB15.7 million for the Period, primarily due to the outbreak of COVID-19 which interrupted the normal business operation and resulted in lesser sale activities incurred.

Administrative expenses

Administrative expenses decreased by approximately 33.8% from approximately RMB19.5 million for the Last Period to approximately RMB12.9 million for the Period, primarily due to the decrease of approximately RMB5.7 million in research and development expenses from approximately RMB8.4 million for the Last Period to approximately RMB2.7 million for the Period.

Finance costs

Finance costs decreased by approximately 26.8% from approximately RMB7.1 million for the Last Period to approximately RMB5.2 million for the Period primarily due to increase in the loan interest capitalised for the construction of the optical fiber production plant from RMB385,000 for the Last Period to RMB4.3 million for the Period.

Income tax expense

Income tax expense decreased by approximately 58.7% from approximately RMB4.6 million for the Last Period to approximately RMB1.9 million for the Period, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 13.2% for the Period and approximately 15.2% for the Last Period.

Profit for the Period

As a result of the foregoing, profit for the Period decreased by approximately 52.3% from approximately RMB25.8 million for the Last Period to approximately RMB12.3 million for the Period.

Particulars of the Group's segment information are set out in note 5 to the Interim Condensed Consolidated Financial Statement.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2020, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB97.5 million (31 December 2019: approximately RMB96.9 million), representing a slight increase of approximately 0.6% as compared to that as at 31 December 2019.

BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the Group had bank borrowings of approximately RMB109.5 million, which was secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. RMB43.5 million out of the bank borrowings are repayable within one year.

As at 31 December 2019, the Group had bank borrowings of approximately RMB120.0 million which were secured by legal charge over the properties of the Group and the corporate guarantees from the Group. All bank borrowings are repayable within one year.

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

On 31 July 2020, the Company entered into an early repayment agreement (the “**Early Repayment Agreement**”) with the Lender, pursuant to which the Loan Agreement had been early terminated with effect from 31 July 2020 and the drawn-down loan (together with all outstanding interest as of the repayment date) (the “**Amount**”) had been repaid by the Company to the Lender on 31 July 2020. Pursuant to the Early Repayment Agreement, the personal guarantee provided by each of Ms. Wang and Mr. Zhao 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 had been cancelled forthwith after the Amount has been fully repaid by the Company on 31 July 2020. Pursuant to the Early Repayment Agreement, the above share charge provided by each of Arcenciel, Point Stone, Ms. Wang and Mr. Zhao had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020.

Gearing ratio

As at 30 June 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.64 (31 December 2019: approximately 0.71).

Interest rate risk

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

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

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. No bank and other borrowings of the Group as at 30 June 2020 and 31 December 2019 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 19 to the Interim Condensed Consolidated Financial Statement.

The Group's exposures to interest rate risk are detailed in note 23(a) to the Interim Condensed Consolidated Financial Statements.

Credit risk

As at 30 June 2020, 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 has been stated in the Interim Condensed Consolidated Statements of Financial Position.

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

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

The Group's exposures to credit risk are detailed in note 23(b) to the Interim Condensed Consolidated Financial Statements.

Liquidity risk

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

The Group's remaining contractual maturity for its non-derivative financial liabilities was detailed in note 23(c) to the Interim Condensed Consolidated Financial Statements.

Capital Commitments

As at 30 June 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB69.8 million (31 December 2019: approximately RMB86.2 million).

Save as those disclosed in this report, the Group did not have any material acquisitions and disposals for the Period.

Employees and remuneration policies

As at 30 June 2020, the Group had 349 employees (31 December 2019: 514 employees). For the Period, the Group incurred staff costs of approximately RMB19.2 million (the Last Period: RMB21.3 million). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend to shareholders of the Company for the Period (Last Period: Nil).

CONTINGENT LIABILITIES AND LITIGATION

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

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

As at 30 June 2020, 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	Approximate percentage of shareholding
Ms. Wang Qiuping	Interest in a controlled corporation (Notes 2, 4, 5)	408,375,000	37.13%
Mr. Zhao Xiaobao	Interest in a controlled corporation (Notes 3, 4, 5)	358,875,000	32.63%

Notes:

- all interests stated are long positions.
- 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.
- 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.
- 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.
- On 31 July 2020, the Company entered into an early repayment agreement (the “**Early Repayment Agreement**”) with the Lender, pursuant to which the Loan Agreement had been early terminated with effect from 31 July 2020 and the drawn-down loan (together with all outstanding interest as of the repayment date) (the “**Amount**”) had been repaid by the Company to the Lender on 31 July 2020. Pursuant to the Early Repayment Agreement, the personal guarantee provided by each of Ms. Wang and Mr. Zhao 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 had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020. Pursuant to the Early Repayment Agreement, the above share charge provided by each of Arcenciel, Point Stone, Ms. Wang and Mr. Zhao had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020.

Save as disclosed above, as at 30 June 2020, 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 30 June 2020, 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	Approximate percentage of shareholding
Arcenciel Capital Co., Ltd.	Beneficial owner (Notes 2, 4, 5)	408,375,000	37.13%
Point Stone Capital Co., Ltd.	Beneficial owner (Notes 3, 4, 5)	358,875,000	32.63%

Notes:

- All interests stated are long positions.
- 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.
- 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.
- 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.

5. On 31 July 2020, the Company entered into an early repayment agreement (the “**Early Repayment Agreement**”) with the Lender, pursuant to which the Loan Agreement had been early terminated with effect from 31 July 2020 and the drawn-down loan (together with all outstanding interest as of the repayment date) (the “**Amount**”) had been repaid by the Company to the Lender on 31 July 2020. Pursuant to the Early Repayment Agreement, the personal guarantee provided by each of Ms. Wang and Mr. Zhao 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 had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020. Pursuant to the Early Repayment Agreement, the above share charge provided by each of Arcenciel, Point Stone, Ms. Wang and Mr. Zhao had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020.

Save as disclosed above, as at 30 June 2020, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

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

For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information – 15. Share option scheme” in the Prospectus.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

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

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

Chairman of the Board and Chief Executive Officer

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

AUDIT COMMITTEE

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

BDO Limited (“**BDO**”) is currently the auditor of the Company. A resolution for the re-appointment of BDO as auditor of the Company has been approved at the annual general meeting of the Company held on 26 June 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

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

■ INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	228,096	332,553
Cost of sales		(176,645)	(257,022)
Gross profit		51,451	75,531
Other income	6	317	284
Selling and distribution expenses		(15,668)	(20,107)
Administrative expenses		(12,924)	(19,508)
Expected credit losses on financial assets		(3,767)	1,364
Finance costs	7	(5,235)	(7,142)
Profit before income tax expense	8	14,174	30,422
Income tax expense	9	(1,875)	(4,612)
Profit for the period		12,299	25,810
Profit for the period attributable to owners of the Company		12,299	25,810
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(609)	(1,400)
Other comprehensive income for the period, net of tax		(609)	(1,400)
Profit and total comprehensive income for the period		11,690	24,410
Earnings per share	10		
Basic and diluted		RMB0.011	RMB0.024

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020



	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	302,996	244,886
Prepayment for property, plant and equipment and intangible assets	12	24,992	69,339
Total non-current assets		327,988	314,225
Current assets			
Inventories	13	65,340	65,588
Trade and bills receivables	14	204,003	264,626
Deposits, prepayment and other receivables	15	91,122	61,167
Tax recoverables		850	–
Restricted cash	16	8	22,476
Cash and cash equivalents		97,529	74,440
Total current assets		458,852	488,297
Total assets		786,840	802,522
Current liabilities			
Trade and bills payables	17	64,432	71,964
Contract liabilities	18	7,531	4,525
Accruals, deposits received and other payables		14,845	17,864
Current tax liabilities		–	3,168
Bank and other borrowings	19	140,532	170,107
Lease liabilities		646	584
Total current liabilities		227,986	268,212
Net current assets		230,866	220,085
Total assets less current liabilities		558,854	534,310



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Bank and other borrowings	19	65,960	53,500
Deferred tax liabilities		12,085	11,883
Lease liabilities		336	144
Total non-current liabilities		78,381	65,527
Total liabilities		306,367	333,739
NET ASSETS		480,473	468,783
EQUITY			
Share capital		9,361	9,361
Reserves		471,112	459,422
TOTAL EQUITY		480,473	468,783

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020



	Attributable to owners of the company							Total RMB'000
	Share capital RMB'000	Share premium* RMB'000	Capital reserves* RMB'000	Other reserves* RMB'000	PRC statutory reserve* RMB'000	Exchange reserve* RMB'000	Retained profits* RMB'000	
At 31 December 2018 (audited)	9,361	130,289	190	3,028	31,248	(4,070)	234,920	404,966
Initial application of HKFRS 16	-	-	-	-	-	-	10	10
Restated balance at 1 January 2019	9,361	130,289	190	3,028	31,248	(4,070)	234,930	404,976
Profit for the Period	-	-	-	-	-	-	25,810	25,810
Exchange differences arising on transaction of foreign operations	-	-	-	-	-	(1,400)	-	(1,400)
Total comprehensive income for the Period	-	-	-	-	-	(1,400)	25,810	24,410
Appropriation to statutory reserves	-	-	-	-	3,555	-	(3,555)	-
At 30 June 2019 (unaudited)	9,361	130,289	190	3,028	34,803	(5,470)	257,185	429,386
At 1 January 2020 (audited)	9,361	130,289	190	3,028	45,011	(7,015)	287,919	468,783
Profit for the Period	-	-	-	-	-	-	12,299	12,299
Exchange differences arising on transaction of foreign operations	-	-	-	-	-	(609)	-	(609)
Total comprehensive income for the Period	-	-	-	-	-	(609)	12,299	11,690
Appropriation to statutory reserves	-	-	-	-	2,335	-	(2,335)	-
At 30 June 2020 (unaudited)	9,361	130,289	190	3,028	47,346	(7,624)	297,883	480,473

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from operating activities		
Profit before income tax expense	14,174	30,422
Adjustments for:		
Depreciation of property, plant and equipment	9,574	7,948
Gains on disposal of property, plant and equipment	57	–
Interest income	(416)	(182)
Finance costs	5,235	7,142
Expected credit loss on financial assets	3,767	(1,364)
Operating profit before working capital changes	32,391	43,966
(Increase)/decrease in trade and bills receivables	56,856	(36,543)
Decrease in deposits, prepayments and other receivables	(29,955)	(1,514)
(Increase)/decrease in inventories	248	(8,786)
Increase/(decrease) in trade and bills payables	(7,532)	13,883
Decrease in accruals, deposits received and other payables	(3,019)	(2,293)
Increase in contract liabilities	3,006	967
Cash generated from operations	51,995	9,680
Profits tax paid	(5,691)	(7,739)
Net cash generated from operating activities	46,304	1,941
Cash flows from investing activities		
Purchase of property, plant and equipment	(22,443)	(8,197)
Prepayments of property, plant and equipment	–	(7,319)
Restricted investment deposits	–	(50,000)
Interest income received	416	182
Net cash used in investing activities	(22,027)	(65,334)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2020



	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Proceeds from bank borrowings	54,000	112,290
Repayment of bank borrowings	(71,115)	(43,469)
Repayment to a director	–	(1,746)
Increase/(decrease) in restricted cash pledged	22,468	7,464
Payment of lease liabilities	(697)	–
Interest paid	(5,235)	(7,469)
Net cash used in financing activities	(579)	67,070
Net decrease in cash and cash equivalents	23,698	3,677
Cash and cash equivalents at beginning of the period	74,440	89,201
Effect of foreign exchange rate changes	(609)	(1,400)
Cash and cash equivalents at end of the period	97,529	91,478

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 Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located in the PRC. The Group, comprising the Company and its subsidiaries, is principally engaged in production and sale of optical fiber cables, communication copper cables and structured cabling system products.

This interim condensed consolidated financial statements are presented in Chinese Renminbi (“**RMB**”), unless otherwise stated.

This interim condensed consolidated financial statements have been approved and authorized for issue by the Board of Director of the Company on 31 August 2020.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the Period have neither been audited nor reviewed by the Company’s auditors, but have been reviewed by the Company’s audit committee, which have been prepared in accordance with HKAS 34, Interim Financial Reporting issued by Hong Kong Institute of Certified Public Accountants. The interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3. ADOPTION OF NEW OR REVISED HKFRSs

The Group has applied for the first time the following new and revised standards and interpretation (“**new and revised HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) which are effective for the Group’s financial year beginning on or after 1 January 2020.

- Amendments to HKFRS 3: Definition of a Business
- Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8: Definition of Material
- Amendments to HKFRS 16: COVID-19-Related Rent Concessions
- Conceptual Framework for Financial Reporting (Revised)

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group’s accounting policies.



3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

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.

Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKAS 1 and HKAS 8: Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRSs and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 16: COVID-19-Related Rent Concessions

Effective 1 June 2020, HKFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in HKFRS 16 in accounting for the concession.

3. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

Amendments to HKFRS 16: COVID-19-Related Rent Concessions (Continued)

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. The practical expedient has been applied retrospectively, meaning it has been applied to all rent concessions that satisfy the criteria, which in the case of the Group, occurred from January 2020 to February 2020.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

Conceptual Framework for Financial Reporting (Revised)

The revised Framework is not a Standard nor an Accounting Guideline. It does not override any Standard, any requirement in a Standard or Accounting Guideline. The revised Framework includes: new chapters on measurement and reporting financial performance; new guidance on derecognition of assets and liabilities; updated definitions of asset and liability; and clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

4. ESTIMATES

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2019 Financial Statements.



5. SEGMENT INFORMATION

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

(i) Business Segments

	Six months ended 30 June 2020 (Unaudited)			Total RMB'000
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	
Reportable segment revenue	67,557	96,220	64,319	228,096
Reportable segment profit	14,452	1,455	17,181	33,088

	Six months ended 30 June 2019 (Unaudited)			Total RMB'000
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	
Reportable segment revenue	113,928	139,946	78,679	332,553
Reportable segment profit	9,857	14,943	21,219	46,019

(ii) Reconciliation of profit or loss:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Segment results	33,088	46,019
Other income	317	284
Unallocated expenses	(13,996)	(8,739)
Finance costs	(5,235)	(7,142)
Income tax expense	(1,875)	(4,612)
Profit after taxation	12,299	25,810

(iii) Geographic information

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

6. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income and others	416	182
Exchange losses, net	(507)	–
Government grants	317	85
Gains on sale of scrap materials	91	17
	317	284

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest charge on bank and other borrowings	9,448	7,501
Interest charge on lease liabilities	37	26
Less: Amount capitalised	(4,250)	(385)
	5,235	7,142

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	176,645	257,022
Research and development expenditure	2,695	8,415
Depreciation of property, plant and equipment	8,485	7,452
Depreciation of right-of-use asset	1,089	496
Short-term lease	865	843
Expected credit losses/(write-back) on financial assets	3,767	(1,364)
Staff costs (including directors' emoluments):		
– Salaries and wages	17,104	17,632
– Defined contribution scheme	2,063	3,715
	19,167	21,347



9. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC EIT	1,484	4,402
Deferred income tax charge to profit or loss for the period	391	210
Income tax expenses	1,875	4,612

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

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

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

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

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB12,299,000 (the Last Period: approximately RMB25,810,000) and the weighted average of 1,100,000,000 shares (the Last Period: 1,100,000,000 shares) in issue during the period, calculated as follows:

	Six months ended 30 June	
	2020	2019
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	0.011	0.024
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 Period and the Last Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Unaudited RMB'000
Net book value as at 1 January 2020	244,886
Additions	67,741
Depreciation	(9,574)
Disposal	(57)
Net book value as at 30 June 2020	302,996



11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Audited RMB'000
Net book value as at 1 January 2019	132,512
Additions	128,956
Depreciation	(16,578)
Disposal	(4)
Net book value as at 31 December 2019	244,886

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

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayment for property, plant and equipment	21,596	65,943
Prepayment for intangible assets	3,396	3,396
	24,992	69,339

13. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	29,422	19,402
Finished goods	35,918	46,186
	65,340	65,588

14. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	205,481	266,784
Bills receivables (Note)	6,339	1,892
	211,820	268,676
Less: Loss allowances	(7,817)	(4,050)
	204,003	264,626

Note: Bills receivables represented outstanding commercial acceptance bills.

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	53,082	90,273
More than 1 month but within 2 months	47,682	75,971
More than 2 months but within 3 months	32,701	52,490
More than 3 months but within 6 months	61,692	39,220
More than 6 months but within 1 year	5,720	6,369
More than 1 year	3,126	303
	204,003	264,626

The credit term granted by the Group to its trade customers is normally 181 days to 360 days. Further details on the Group's credit policy are set out in note 23(b).



15. DEPOSITS, PREPAYMENT AND OTHER RECEIVABLES

As at 30 June 2020, deposits, prepayment and other receivables mainly included prepayment of RMB53.5 million for the acquisition of raw materials and equipment (31 December 2019: RMB23.2 million).

16. RESTRICTED CASH

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

17. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	28,756	52,928
Bills payables	35,676	19,036
	64,432	71,964

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	47,705	43,497
More than 1 month but within 2 months	9,213	9,311
More than 2 months but within 3 months	1,813	5,700
More than 3 months but within 6 months	3,583	6,648
More than 6 months but within 1 year	978	6,262
More than 1 year	1,140	546
	64,432	71,964

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

17. TRADE AND BILLS PAYABLES (CONTINUED)

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Neither past due	64,277	70,371
Overdue for less than 1 year	155	1,593
	64,432	71,964

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

18. CONTRACT LIABILITIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract liabilities arising from:		
Sale of goods	7,531	4,525
	7,531	4,525
		RMB'000
Balance as at 1 January 2020		4,525
Decrease in contract liabilities as a result of recognising revenue during the period that was included in the contract liabilities at the beginning of the period		(4,525)
Increase in contract liabilities as a result of billing in advance of sales of goods		7,531
Balance as at 30 June 2020		7,531



19. BANK AND OTHER BORROWINGS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bank borrowings:		
– Secured (i), (ii), (iii), (iv) & (v)	109,500	120,000
– Unsecured (i), (iii), (iv) & (v)	–	10,000
	109,500	130,000
Other borrowing:		
– Secured (iii) & (iv)	96,992	93,607
– Unsecured (iv)	–	–
	206,492	223,607
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
On demand or within one year	140,532	170,107
More than one year, but not exceeding two years	26,120	3,080
More than two years, but not exceeding three years	6,930	7,500
More than three years, but not exceeding four years	32,910	6,160
More than four years, but not exceeding five years	–	7,700
More than five years, but not exceeding six years	–	29,060
	206,492	223,607

19. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

- (i) The bank borrowings with effective interest rate is 5.44% (2019: 4.98%) per annum.
- (ii) The bank and other borrowings are secured by the assets of the Group, the carrying amounts of the assets as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Land and buildings	58,314	61,331
Bank deposits	–	10,000
	58,314	71,331

- (iii) As at 30 June 2020 and 31 December 2019, 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 30 June 2020 and 31 December 2019 set out below:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Amounts granted	117,000	130,000
Amounts utilised	109,500	130,000



20. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial assets		
<i>Amortised costs:</i>		
Trade, bills and other receivables	239,399	300,486
Restricted cash	8	22,476
Cash and cash equivalents	97,529	74,440
Financial liabilities		
<i>Amortised costs:</i>		
Trade, bills and other payables	76,092	86,825
Bank and other borrowings	206,492	223,607
Leased liabilities	982	728

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

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

21. CAPITAL COMMITMENTS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Capital expenditure of the Group contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment and intangible asset	69,812	86,169

22. RELATED PARTY TRANSACTIONS

The remuneration to Directors and the other key management personnel for the Period are were RMB2.3 million (the Last Period: RMB2.2 million).

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 period.

23. FINANCIAL RISK MANAGEMENT

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

(a) Interest rate risk

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

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

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 30 June 2020 and 31 December 2019 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 19.



23. 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 its 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):

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Change in profit after tax and retained profits:		
+/- 100 basis points	-/+ -	-/+ -

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 is 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 as at 30 June 2020 and 31 December 2019 amounted to approximately RMB125,458,000 and approximately RMB162,805,000 respectively, and accounted for 55.0% and 61.5% 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.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

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
- 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.



23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

As at 30 June 2020 and 31 December 2019, 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 30 June 2020					
Expected credit loss rate	1.2%	11.7%	20.0%	52.9%	
Gross carrying amount (RMB'000)	200,801	650	725	9,644	211,820
Loss allowance provision (RMB'000)	2,490	76	145	5,106	7,817
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

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

As at 30 June 2020 and 31 December 2019, the loss allowance provision for trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

	Trade and bills receivables	Total
	RMB'000	RMB'000
At 1 January 2020	4,050	4,050
Provision for loss allowance recognised in profit or loss	3,767	3,767
At 30 June 2020	7,817	7,817
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

As at 30 June 2020 and 31 December 2019, the gross carrying amount of trade and bills receivables was RMB211,820,000 and RMB268,676,000 respectively and thus the maximum exposure to loss was RMB7,817,000 and RMB4,050,000 respectively.

Increase in the loss allowance of RMB3,767,000 (2019: RMB1,640,000) as a result of a net increase in trade receivables overdue.



23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

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

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

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
As at 30 June 2020					
Trade, bills and other payables	76,091	76,091	76,091	-	-
Bank and other borrowings	206,492	213,736	145,782	20,216	47,738
	282,583	289,827	221,873	20,216	47,738
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

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk

(i) Exposure to currency risk

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

The following table details the Group's exposure as at 30 June 2020 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.

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	USD	HKD	USD	HKD
	Denominated in RMB'000	Denominated in RMB'000	Denominated in RMB'000	Denominated in RMB'000
Cash and cash equivalents	51	9,681	507	1,640
Bank and other borrowings	-	(89,491)	-	(86,107)
	51	(79,810)	507	(84,467)



23. 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.

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	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% (5)%	3 (3)	5% (5)%	25 (25)
HKD	5% (5)%	(3,991) 3,991	5% (5)%	(4,223) 4,223

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis as at 30 June 2020 has been performed on the same basis.

24. EVENTS AFTER THE END OF REPORTING DATE

On 31 July 2020, the Company entered into an early repayment agreement (the “**Early Repayment Agreement**”) with the Lender, pursuant to which the Loan Agreement had been early terminated with effect from 31 July 2020 and the drawn-down loan (together with all outstanding interest as of the repayment date) (the “**Amount**”) had been repaid by the Company to the Lender on 31 July 2020. Pursuant to the Early Repayment Agreement, the personal guarantee provided by each of Ms. Wang and Mr. Zhao 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 had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020. Pursuant to the Early Repayment Agreement, the above share charge provided by each of Arcenciel, Point Stone, Ms. Wang and Mr. Zhao had been cancelled forthwith after the Amount had been fully repaid by the Company on 31 July 2020.

From 30 June 2020 to the date of this report, saved as disclosed in this report, the Board is not aware of any other significant events that have occurred which require disclosure herein.