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Putian Communication Group Limited

普天通信集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1720)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, the Group's operating results were summarised as follows:

- Total revenue decreased by approximately 29.2% to approximately RMB544.1 million (2019: approximately RMB768.3 million).
- Gross profit decreased by approximately 34.1% to approximately RMB121.6 million (2019: approximately RMB184.4 million).
- Gross profit margin decreased by approximately 1.7% to approximately 22.3% (2019: approximately 24.0%).
- Profit for the year attributable to the owners of the Company decreased by approximately 51.6% to approximately RMB32.3 million (2019: approximately RMB66.8 million).
- Revenue from sale of optical fiber cables decreased by approximately 48.5% to approximately RMB124.6 million (2019: approximately RMB241.9 million); revenue from sale of structured cabling system products decreased by approximately 30.6% to approximately RMB150.6 million (2019: approximately RMB217.1 million); and revenue from sale of communication copper cables decreased by approximately 13.1% to approximately RMB268.9 million (2019: approximately RMB309.3 million).
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Putian Communication Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 (the “**Year**”), together with the comparative figures for the year ended 31 December 2019 (the “**Last Year**”). The annual results have been reviewed by the audit committee of the Company and approved by the Board.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	4	544,059	768,322
Cost of sales		<u>(422,502)</u>	<u>(583,907)</u>
Gross profit		121,557	184,415
Other income		1,435	715
Selling and distribution expenses		(34,516)	(42,773)
Administrative expenses		(41,377)	(49,110)
Expected credit losses on financial assets		(3,918)	(1,640)
Finance costs	5	<u>(2,939)</u>	<u>(7,909)</u>
Profit before income tax expense	6	40,242	83,698
Income tax expense	7	<u>(7,950)</u>	<u>(16,946)</u>
Profit for the year		<u>32,292</u>	<u>66,752</u>
Profit for the year attributable to the owners of the Company		<u>32,292</u>	<u>66,752</u>
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(834)</u>	<u>(2,945)</u>
Other comprehensive income for the year, net of tax		<u>(834)</u>	<u>(2,945)</u>
Profit and total comprehensive income for the year		<u>31,458</u>	<u>63,807</u>
Earnings per share	8		
Basic and diluted		<u>RMB0.029</u>	<u>RMB0.061</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2020

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	360,990	244,886
Prepayment for property, plant and equipment and intangible assets		<u>17,820</u>	<u>69,339</u>
Total non-current assets		<u>378,810</u>	<u>314,225</u>
Current assets			
Inventories		66,728	65,588
Trade and bills receivables	10	250,430	264,626
Deposits, prepayment and other receivables		68,970	61,167
Restricted cash	11	30,000	22,476
Cash and cash equivalents		<u>43,025</u>	<u>74,440</u>
Total current assets		<u>459,153</u>	<u>488,297</u>
Total assets		<u>837,963</u>	<u>802,522</u>
Current liabilities			
Trade and bills payables	12	58,633	71,964
Contract liabilities		6,625	4,525
Lease liabilities		922	584
Accruals, deposits received and other payables		41,300	17,864
Current tax liabilities		3,649	3,168
Bank and other borrowings	13	<u>126,200</u>	<u>170,107</u>
Total current liabilities		<u>237,329</u>	<u>268,212</u>
Net current assets		<u>221,824</u>	<u>220,085</u>
Total assets less current liabilities		<u>600,634</u>	<u>534,310</u>

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Bank and other borrowings	<i>13</i>	86,232	53,500
Lease liabilities		501	144
Deferred tax liability		13,660	11,883
		<hr/>	<hr/>
Total non-current liabilities		100,393	65,527
		<hr/>	<hr/>
Total liabilities		337,722	333,739
		<hr/>	<hr/>
NET ASSETS		500,241	468,783
		<hr/>	<hr/>
EQUITY			
Share capital		9,361	9,361
Reserves		490,880	459,422
		<hr/>	<hr/>
TOTAL EQUITY		500,241	468,783
		<hr/>	<hr/>

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 2020 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 2021.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

2.1 Adoption of new or amended HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKAS 39, HKFRS 7 and HKFRS 9, Interest Rate Benchmark Reform
- Amendment to HKFRS 16, COVID-19 Related Rent Concessions

None of these new or amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period.

2.2 New standards, interpretations and amendments 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 HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause⁴

Amendments to HKAS 16, Proceeds before Intended Use²

Amendments to HKAS 37, Onerous Contracts - Cost of Fulfilling a Contract²

HKFRS 17 - Insurance Contracts⁴

Amendments to HKFRS 3, Reference to the Conceptual Framework³

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁵

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2¹

Annual Improvements to HKFRSs 2018-2020²

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

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. According to the preliminary assessment made by the Group, no significant impact on the financial performance and position of the Group is expected when they become effective.

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. REVENUE

The principal activities of the Group are the manufacturing and sale of optical fiber cables, communication copper cables and structured cabling system products.

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Optical fiber cables	124,567	241,870
Communication copper cables	268,893	309,308
Structured cabling system products	150,599	217,144
	544,059	768,322
Geographical markets:		
Mainland China	544,059	768,322
Timing of revenue recognition:		
Goods transferred at a point in time	544,059	768,322

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	250,430	264,626
Contract liabilities	6,625	4,525

5. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest charge on bank and other borrowings	16,027	15,788
Interest lease liabilities	68	62
Less: Amount capitalised (<i>Note</i>)	<u>(13,156)</u>	<u>(7,941)</u>
	<u>2,939</u>	<u>7,909</u>

Note: Borrowing costs capitalised during the year then ended arose on the general borrowing pool are calculated by applying a capitalisation rate of 5.41% (2019: n/a) for the year ended 31 December 2020 to expenditure on qualifying assets.

6. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Auditors' remuneration	1,080	1,080
Cost of inventories recognised as expenses	422,502	583,907
Transportation expense	12,807	16,308
Research and development expenditure	15,721	23,424
Depreciation of property, plant and equipment	19,908	16,578
Expected credit losses on financial assets	3,918	1,640
Interest on lease liabilities	68	62
Short-term leases expenses	<u>1,503</u>	<u>1,597</u>
Staff costs (including directors' emoluments):		
– Salaries and wages	36,418	41,792
– Defined contribution scheme (<i>Note i</i>)	<u>1,850</u>	<u>6,110</u>
	<u>38,268</u>	<u>47,902</u>

Note:

- i. 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.

7. INCOME TAX EXPENSE

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – Hong Kong Profits Tax		
Tax for the current year	–	–
Current tax – PRC EIT		
Tax for the current year	<u>6,173</u>	<u>14,196</u>
Deferred tax		
Charge to profit or loss for the year	<u>1,777</u>	<u>2,750</u>
	<u>7,950</u>	<u>16,946</u>

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 2020 (2019: 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 2020 and 2019, 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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax expense	<u>40,242</u>	<u>83,698</u>
Tax calculated at the applicable tax rate of 25% (2019: 25%)	10,061	20,925
Effect of different tax rates	(5,194)	(10,391)
Tax effect of expenses not deductible for tax purposes	339	200
Effect attributable to the additional qualified tax deduction relating to research and development costs	(1,717)	(1,757)
Deferred tax on undistributed earnings of PRC subsidiaries	1,719	3,111
Effect of tax losses not recognised	<u>2,742</u>	<u>4,858</u>
Income tax expense	<u>7,950</u>	<u>16,946</u>

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB32,292,000 (2019: approximately RMB66,752,000) and the weighted average of 1,100,000,000 shares (2019: 1,100,000,000 shares) in issue during the year, calculated as follows:

	2020	2019
	<i>RMB</i>	<i>RMB</i>
Earnings per share		
Basic earnings per share	<u>0.029</u>	<u>0.061</u>
Number of share		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>1,100,000,000</u>	<u>1,100,000,000</u>

There were no potential dilutive ordinary shares during the years ended 31 December 2020 and 2019 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
COST						
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
Additions	90,837	8,038	28,442	2	8,693	136,012
Disposals	—	(1,411)	—	—	—	(1,411)
As at 31 December 2020	217,197	90,832	135,337	2,272	19,929	465,567
ACCUMULATED DEPRECIATION						
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
Disposals	—	—	—	(60)	—	(60)
As at 31 December 2019	—	22,208	55,472	1,934	6,466	86,080
Depreciation	—	5,864	9,725	115	4,204	19,908
Disposals	—	(1,411)	—	—	—	(1,411)
As at 31 December 2020	—	26,661	65,197	2,049	10,670	104,577
NET BOOK VALUE						
As at 31 December 2020	217,197	64,171	70,140	223	9,259	360,990
As at 31 December 2019	126,360	61,997	51,423	336	4,770	244,886

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 2020 and 2019, land and buildings with carrying amounts of RMB62,725,000 and RMB61,331,000, respectively were pledged as collateral for Group's bank and other borrowings (Note 13).

	Land and buildings RMB'000
Right-of-Use Assets	
At 1 January 2019	12,999
Additions	314
Depreciation	<u>(948)</u>
At 31 December 2019 and 1 January 2020	12,365
Additions	2,037
Depreciation	<u>(1,546)</u>
At 31 December 2020	<u>12,856</u>

10. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	253,972	266,784
Bills receivables (<i>Note</i>)	<u>4,426</u>	<u>1,892</u>
	258,398	268,676
Less: Loss allowance	<u>(7,968)</u>	<u>(4,050)</u>
	<u>250,430</u>	<u>264,626</u>

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 on is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	93,840	90,273
More than 1 month but within 2 months	64,120	75,971
More than 2 months but within 3 months	47,459	52,490
More than 3 months but within 6 months	36,842	39,220
More than 6 months but within 1 year	7,659	6,369
More than 1 year	<u>510</u>	<u>303</u>
	<u>250,430</u>	<u>264,626</u>

The credit term granted by the Group to its trade customers is normally 180 days to 360 days.

11. RESTRICTED CASH

Bank deposits have been pledged as security for bank borrowings (Note 13) and bills payables (Note 12). The restricted cash will be released upon the settlement of relevant bank borrowings.

12. TRADE AND BILLS PAYABLES

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	42,517	52,928
Bills payables	16,116	19,036
	<u>58,633</u>	<u>71,964</u>

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 90 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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	21,918	43,497
More than 1 month but within 2 months	15,098	9,311
More than 2 months but within 3 months	6,419	5,700
More than 3 months but within 6 months	13,127	6,648
More than 6 months but within 1 year	869	6,262
More than 1 year	1,202	546
	<u>58,633</u>	<u>71,964</u>

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

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

13. BANK AND OTHER BORROWINGS

	2020	2019
	RMB'000	RMB'000
Bank borrowings:		
– Secured (ii), (iii) & (iv)	150,500	120,000
– Unsecured (iii) & (iv)	19,000	10,000
	169,500	130,000
Other borrowings:		
– Secured (iii)	15,232	93,607
– Unsecured (iii)	27,700	–
	42,932	93,607
	212,432	223,607

	2020	2019
	RMB'000	RMB'000
On demand or within one year	126,200	170,107
Between one to two years	27,658	3,080
Between two to five years	58,574	50,420
	212,432	223,607

Notes:

- (i) The bank borrowings with effective interest rate is 5.41% (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:

	2020	2019
	RMB'000	RMB'000
Land and buildings (Note 9)	62,725	61,331
Bank deposit (Note 11)	30,000	10,000
	92,725	71,331

- (iii) As at 31 December 2020 and 2019, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank and other borrowings.

- (iv) A summary of facilities granted by banks and the amounts utilised by the Group at 31 December 2020 and 2019 set out below:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts granted	169,500	130,000
Amounts utilised	<u>169,500</u>	<u>130,000</u>

14. EVENTS AFTER THE END OF REPORTING DATE AND EFFECT OF COVID-19

The World Health Organisation declared coronavirus and Covid-19 a global health emergency on 30 January 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

- interruptions to manufacturing activities;
- disruptions in the supply of inventory from major suppliers;
- significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary products.

Government of China in which the Group operates also implemented various measures which might mitigate some of the impact of the Covid-19 pandemic to the results and liquidity position of the Group. To the extent appropriate, the Group applies for such government assistance. Details of all of the arrangements that might be available and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty.

The directors of the Company are continuing to assess the implications of Covid-19 pandemic to the business in which the Group operates. Depending on the duration of the Covid-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded dissatisfied financial results for the Year. It recorded a total revenue of approximately RMB544.1 million which represented a decline of approximately 29.2% as compared with the one for the Last Year. The Group has realised a gross profit of approximately RMB121.6 million for the Year, which represented a decline of approximately 34.1% as compared with the one for the Last Year. Profit for the Year attributable to the owners of the Company was approximately RMB32.3 million, which represented a decline of approximately 51.6% 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 48.5% to approximately RMB124.6 million (the Last Year: approximately RMB241.9 million). The sale of structured cabling system products decreased by approximately 30.6% to approximately RMB150.6 million (the Last Year: approximately RMB217.1 million). The sale of communication copper cables decreased by approximately 13.1% to approximately RMB268.9 million (the Last Year: approximately RMB309.3 million).

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 4G construction in China has nearly come to the end while a scalable commercialisation 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.

In addition, the outbreak of COVID-19 during the first half of the Year interrupted the Group's production, supply chains and sale activities, which adversely affected the Group's business performance. In the second half of the Year, major communication network operators in China started to speed up communication network construction to fulfill a larger number of uncompleted 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, being a centralised 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' advanced position in the transmission field of the communication cable industry in China.

On 4 March 2020, the Politburo of China held a Standing Committee Meeting, emphasising the need to speed up the resumption of production and expand domestic demand from consumption, traditional infrastructure and new infrastructure, including new infrastructure focusing 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 links with the communication network industry, in particular optical fiber cable, communication copper cable and structured cabling system products industries, which is expected to stimulate the market demand. The industry's prospects continue to stabilise to good.

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 represent three reportable segments of the Group. Total revenue of the Group decreased by approximately 29.2% from approximately RMB768.3 million for the Last Year to approximately RMB544.1 million for the Year. Among which, revenue derived from sale of optical fiber cables decreased by approximately 48.5% from approximately RMB241.9 million for the Last Year to approximately RMB124.6 million for the Year; revenue derived from sale of structured cabling system products decreased by approximately 30.6% from approximately RMB217.1 million for the Last Year to approximately RMB150.6 million for the Year; and revenue derived from sale of communication copper cables decreased by approximately 13.1% from approximately RMB309.3 million for the Last Year to approximately RMB268.9 million for the Year.

Gross profit and margin

Gross profit decreased by approximately 34.1% from approximately RMB184.4 million for the Last Year to approximately RMB121.6 million for the Year. The Group's gross profit margin declined from approximately 24.0% for the Last Year to approximately 22.3% for the 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 decreased by approximately 19.4% from approximately RMB42.8 million for the Last Year to approximately RMB34.5 million for the Year, primarily due to the decrease of approximately RMB2.5 million in salaries and welfare expenses for the selling and marketing staff and RMB3.5 million in the transportation expenses. Selling expenses as a percentage of the Group's revenue slightly increased, which was approximately 6.3% for the Year as compared to approximately 5.6% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB41.4 million for the Year, which decreased by approximately 15.7% as compared to the one of approximately RMB49.1 million for the Last Year as a result of the decrease in research and development expenses by approximately RMB7.7 million.

Finance costs

Finance costs decreased by approximately 63.3% from approximately RMB7.9 million for the Last Year to approximately RMB2.9 million for the Year. The decrease was due to that a significant part of the interest of approximately RMB13.2 million (2019: approximately RMB7.9 million) incurred for bank and other borrowings which was used to support the construction of the optical fiber production plant was capitalised during the Year.

Income tax expense

Income tax expense decreased by approximately 52.7% from approximately RMB16.9 million for the Last Year to approximately RMB8.0 million for the Year, primarily due to the decrease in profit before income tax expense. The effective tax rate was approximately 20.2% for the Last Year and approximately 19.8% for the Year.

Profit for the Year

Profit for the Year decreased by approximately 51.6% from approximately RMB66.8 million for the Last Year to approximately RMB32.3 million for the Year.

Cash position

As at 31 December 2020, the Group had an aggregate of restricted cash, cash and cash equivalents of approximately RMB73.0 million (2019: approximately RMB96.9 million), representing a decrease of approximately 24.7% as compared to that as at 31 December 2019. As at 31 December 2020, the Group had restricted cash of approximately RMB30.0 million (2019: RMB22.5 million) that was pledged to banks for various banking facilities.

Borrowings and charges on the Group's assets

As at 31 December 2020, the Group had bank borrowings of approximately RMB169.5 million (2019: approximately RMB130.0 million) and out of which RMB150.5 million was secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates and RMB19.0 million was unsecured. Bank and other borrowings of approximately RMB126.2 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 HKD200.0 million (the “**Loan**”). The first batch of the Loan of HKD100.0 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.

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 in this announcement, the Group did not have any charges of assets as at 31 December 2020 (2019: 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 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.68 (2019: approximately 0.71).

Total debt to total asset ratio

As at 31 December 2020, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total asset, was approximately 0.40 (2019: approximately 0.42).

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 and other 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 and other 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 2020 and 2019 bore interest at floating rates. The interest rate and repayment terms of bank and other borrowings at the end of each reporting period are disclosed in note 13.

Credit risk

As at 31 December 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 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.

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.

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 minimised 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.

Capital Commitments

As at 31 December 2020, 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 RMB36.4 million (2019: approximately RMB86.2 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 first half of 2021.

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 2020, the Group had approximately 412 employees (2019: approximately 541 employees). For the Year, the Group incurred staff costs of approximately RMB38.3 million (2019: approximately RMB47.9 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.

OUTLOOK

On 5 March 2021, the fourth session of the 13th National People's Congress was held in Beijing. The meeting once again proposed to "increase investments in the construction of 5G network and gigabit optical network to enrich the application scenarios." For the communications cable industry, which provides fundamental network support, the construction of 5G network and gigabit optical network will undoubtedly bring a huge amount of fiber optic cable resource consumption, sizable market prospects and a certain market increment.

The Ministry of Industry and Information Technology vigorously promotes the development of 5G applications and accelerates the construction of 5G networks. Telecom operators actively cooperate with system integrators, equipment manufacturers and other industrial chain parties to promote the realisation of "cloud network convergence" strategies. "Broadband China" strategy reaches its final stage. "New Infrastructure" deployment is massively turning on. According to the Commodity Research Unit, communication network operators' fixed-line and 5G construction will be on track by 2021, the global demand for fiber optic cables is expected to grow by 7%. At the same time, driven by the construction of ubiquitous fiber optic networks, the demand for fiber optic cables will maintain a relatively stable growth in the next few years. The expansion of market demand in the optical communications industry will also drive the accelerated layout of the industrial chain.

Year 2021 signifies the start of the 14th Five-Year Plan for China's national development. China's information and communications industry will be guided by the "14th Five-Year Plan" to further push forward constructions in Internet Power and Digital Power, expand the 5G network coverage, speed up construction over data centers and other new infrastructures, and strive for a continuous high-quality development in the information and communications industry.

In 2021, the Group (i) sets its core strategies in vertical integration of the industrial chain, product system innovation and upgrading, business diversification and operational management system continued optimisation; (ii) consolidates its major businesses in communications copper cable, communication optical fiber cable and constructed cable system products; and (iii) explores business opportunities with potential partners in parallel industries such as data centers, smart homes and intelligent buildings to provide them with system solution services and high-end products. The Group will also identify target companies with industry competitive advantages for mergers and acquisitions opportunities to shape itself as a leading company in the emerging industries of strategic importance in intelligent manufacturing.

At present, the Group's construction project of production line of new non-dispersive single-mode optical fiber and optical fiber cable is in the final stage. It is expected to be completed in the first half of 2021 and commence the production in the second half of 2021. Optical fiber production plant put into operation will bring long-term returns to the Group. Continuous improvement of optical fiber production capacity helps the Group reduce its production costs for better profitability and satisfy clients' personalised service requirements. Further, it enhances the Group's technological innovation capabilities and improves its influence and competitiveness in the industry.

"New infrastructure" brings not only opportunities, but also challenges. The development in industries of optical communication, 5G, industrial Internet and other fields brings along higher requirements in the construction of communication networks. Large bandwidth, high speed, low latency, multi-connection and intelligent applications require strong support from more innovative communication products. In order to meet the growing market demand, the Group will focus on the development of optical fiber cable-based 5G communication network products and solutions, continue to reform its communication copper cable and structured cabling system products, to enhance its product innovation and development, continue to introduce first-class research and development team and actively respond to the industry changes and the market demand in high-quality products.

Looking forward to the new year, the Group will adhere to the development strategies in the industrial chain integration and product differentiation, with a global view to structure organisational changes and major project innovation, seize the opportunities brought about by new infrastructure construction, and deeply practice the "optical fibers and cables connect the world" mission, and jointly draw a grand blueprint.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the Year (2019: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained sufficient public float throughout the Year as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time (the “**Listing Rules**”).

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 since the Listing Date and up to the end of the Year.

CORPORATE GOVERNANCE PRACTICES

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

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

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 Qiuping (“**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 monopolise the voting of the Board. The Board considers that the balance of power between the Board and the senior management 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 Year.

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 the 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 the financial statements, the annual report and accounts and the half-year report, and reviewing significant financial reporting judgements 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 2020 and up to the date of this announcement, 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 and this announcement, 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 the Board on the policy and structure for the remuneration of all of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the 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 the Board of the remuneration of the independent non-executive Directors; and (c) reviewing and approving the management's remuneration proposals with reference to the 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 2020 and up to the date of this announcement, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

The Company established a nomination committee (the “**Nomination Committee**”) on 21 October 2017 with written terms of reference in compliance with paragraph A.5 of the CG Code. The duties of the Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy; (b) identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of the independent non-executive Directors; and (d) making recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the 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 2020 and up to the date of this announcement, the Nomination Committee held three meetings which had been supplied with the necessary information of the Group for members to consider, review and address significant issues arising from the work conducted.

COMPETING BUSINESS

The Company received confirmations from the controlling shareholders of the Company in March 2021 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.

EVENTS AFTER THE REPORTING PERIOD

There was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the Year.

SHARE OPTION SCHEME

The Company’s share option scheme (the “**Share Option Scheme**”) was adopted pursuant to a resolution passed on 21 October 2017. From the date of the adoption of the Share Option Scheme and up to the end of the Year, no share option has been granted, or agreed to be granted, under the Share Option Scheme and therefore, there were no outstanding options as at 31 December 2020 (2019: Nil).

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the Year have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

ANNUAL REPORT

The annual report of the Company for the Year will be despatched to the shareholders of the Company and made available on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.potel-group.com) in due course.

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

The PRC, 31 March 2021

As at the date of this announcement, the Board comprises Ms. Wang Qiuping, Mr. Zhao Xiaobao and Ms. Zhao Moge as executive Directors; and Ms. Cheng Shing Yan, Mr. Liu Guodong and Mr. Xie Haidong as independent non-executive Directors.