

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

2021

INTERIM REPORT



CONTENTS

Corporate Information	2
Company Profile	3
Financial Highlights	4
Management Discussion and Analysis	5
Other Information	13
Interim Condensed Consolidated Statement of Comprehensive Income	17
Interim Condensed Consolidated Statement of Financial Position	18
Interim Condensed Consolidated Statement of Changes in Equity	20
Interim Condensed Consolidated Statement of Cash Flows	21
Notes to the Interim Condensed Consolidated Financial Statements	23

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Lai Yeung Fun

AUTHORISED REPRESENTATIVES

Ms. Wang Qiuping
Ms. Lai Yeung Fun

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

AUDITOR

BDO Limited

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

COMPANY PROFILE

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

The Group has commenced its communication cable manufacturing since 2001. It provides a wide range of optical fiber cables, communication copper cables and structured cabling system products under the brand names of “普天汉飞” and “Hanphy”. Its optical fiber cables and communication copper cables are mainly used by major telecommunications network operators in the PRC for network construction and maintenance. Its structured cabling system products primarily include optical and copper jumper wires and connection and distribution components such as distribution frames, wiring closets, as well as data and audio modules and faceplates. Structured cabling 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 recognised 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 (“**Putian Cable**”), has been consecutively recognised 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 2021, the Company had 1,100,000,000 issued shares.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2021 (the “**Period**”), the Group’s operating results were summarised as follows:

- Total revenue increased by approximately 14.6% to approximately RMB261.5 million (Six months ended 30 June 2020 (the “**Last Period**”): approximately RMB228.1 million).
- Gross profit increased by approximately 17.8% to approximately RMB60.6 million (the Last Period: approximately RMB51.5 million).
- Gross profit margin remained stable at approximately 23.2% (the Last Period: approximately 22.6%).
- Profit for the Period attributable to owners of the Company increased by approximately 36.5% to approximately RMB16.8 million (the Last Period: approximately RMB12.3 million).
- Revenue generated from sale of communication copper cables increased by approximately 65.6% to approximately RMB159.3 million (the Last Period: approximately RMB96.2 million) while revenue generated from sale of optical fiber cables decreased by approximately 38.6% to approximately RMB41.5 million (the Last Period: approximately RMB67.6 million); and revenue generated from sale of structured cabling system products slightly decreased by approximately 5.6% to approximately RMB60.7 million (the Last Period: approximately RMB64.3 million).
- The board (the “**Board**”) of directors of the Company (the “**Directors**”) did not recommend the payment of an interim dividend for the Period (the Last Period: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded satisfactory financial results for the Period. It recorded a revenue of approximately RMB261.5 million which represented an increase of approximately 14.6% as compared with the one for the Last Period. The Group has realised a gross profit of approximately RMB60.6 million for the Period, which represented an increase of approximately 17.8% as compared with the one for the Last Period. Profit for the Period attributable to owners of the Company was approximately RMB16.8 million, which represented an increase of approximately 36.5% as compared with the one for the Last Period.

Sale of communication copper cables increased by approximately 65.6% to approximately RMB159.3 million (the Last Period: approximately RMB96.2 million) while the sale of optical fiber cables decreased by approximately 38.6% to approximately RMB41.5 million (the Last Period: approximately RMB67.6 million). The sale of structured cabling system products slightly decreased by approximately 5.6% to approximately RMB60.7 million (the Last Period: approximately RMB64.3 million).

PERFORMANCE REVIEW

In 2021, although the gloomy global economy has been severely hammered by the COVID-19 pandemic, China's economy has recovered steadily through effective anti-pandemic measures and structural reforms. Meanwhile, with the official release of The Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of Long-Term Goals for 2035 by the Chinese government, a large number of data communication construction projects focusing on "Digital China" and "New Infrastructure", including 5G, internet of things ("IoT"), industrial internet and data center, has ushered in a period of rapid development. During the Period, Putian Cable made a significant progress and outstanding performance in market expansion. In addition to maintaining stable cooperation with the three major communication operators in China, it has also expanded its business cooperation with China Tower, China Railway, China Construction, China Railway Construction and other state-owned construction groups and becomes the prioritised brand for their digital transformation and communication network construction, indicating that the diversified product portfolio of the Group, covering optical fibers, optical fiber products, digital cable products and structured cabling system products, has successfully aligned with market technology services and is therefore capable of satisfying the large-scale application of the "New Infrastructure" data network construction in the market and meeting the current and future market development needs for data network transformation and upgrade, enabling the Group to further consolidate and expand its market share in the data network transmission and intelligent link sector of China, establish the Group's leading position in the industry, resulting in a positive impact on the development of future product businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the performance of Putian Cable in the contracted sales of rail transit construction projects was also encouraging. The success in bidding for the project of China Railway's rail transit systems of Changsha and Shenzhen shows the Group's industry-leading product and technical strength in the digitalised intelligent networks construction for rail transit systems. The high standards of product performance and quality, as well as the technical support from customer service, also demonstrate the excellent market competitiveness and brand influence of the Group.

OUTLOOK

With the promulgation of the "14th Five-Year Plan" by the General Office of the State Council and under the guidance of the approach of "accelerating digital development and building Digital China", the country steps up efforts to develop new infrastructure in a systematic manner and accelerates the expansion of the digital communication construction projects, including the fifth-generation mobile communication technology, industrial internet+, smart city and big data, as national strategic projects and fundamental strategic resources. Meanwhile, China further improves the development of communication transmission, intelligent manufacturing and IoT, and carries out digital transformation of industries to ensure the social structure to be in line with economic growth and promote continuous improvement. More efforts will also be put into the construction and development of data transmission and cabling networks project based on the need of "New Infrastructure" to play its role as the base of digitalised superstructures.

Industry landscape and trends

Currently, high-speed data transmission has been increasingly required for network cabling in the data communication and optical communication construction sector. The publication of the "Notice on Organisation and Implementation of New Infrastructure Construction Projects (Broadband Networks and 5G) in 2020" by the National Development and Reform Commission of the State Council on 18 March 2020 represents the official kick-off of the construction of "large-scale 5G and gigabit optical networks". On 25 March 2021, the Ministry of Industry and Information Technology (MIIT) issued the "'Dual Gigabit Network Coordinated Development Action Plan (2021-2023)", which requires that by the end of this year, the gigabit optical fiber network shall reach the capacity to cover 200 million households, the scale of 10 gigabit passive optical network (10G-PON) and above ports shall exceed 5 million, and the number of gigabit broadband subscribers shall exceed 10 million; and by the end of 2023, the gigabit optical fiber network shall achieve the capacity to cover 400 million households, the scale of 10G-PON and above ports shall exceed 10 million, and the number of gigabit broadband subscribers shall exceed 30 million. According to the statistics from Cnii.com.cn (中國產業信息網), in the coming three years, the total number of 5G base stations in construction will reach 2.75 million and the overall deployment will be completed by 2025. Given the transmission speed and base station cabling of 5G, data cables and optical cables of Cat 6 and above and their linked products will become the backbone of 5G network cabling.

On 14 July 2021, the MIIT promulgated a “Three-Year Action Plan for the Development of New Data Centers (2021-2023)”, which plans to form a new data center development pattern with reasonable layout, advanced technology, low carbon, and computing power compatible with the growth of the digital economy in three years. The demand for the application of industrial internet, artificial intelligence and network security makes the construction of data centers the base of the digital economy and an integral part of the new infrastructures. In 2020, Alibaba Cloud announced an investment of RMB200 billion over the next three years for the research and development of significant core technologies, including cloud operating system, servers, chips and networks, as well as the construction of future-oriented data centers. Tencent will invest RMB500 billion over the next five years for further developments of new infrastructure and the construction of multiple large-scale data centers with a scale of one million servers across the country.

The support from national policies and the unfolding of the “New Infrastructure” construction of Digital China are expected to directly bring about a broad market prospect and predictable market growth to China’s construction of information, communication and data networks in the next five years. Driven by the flourishing development of new infrastructures, the construction of data communication network links, from digital communication networks to optical networks, will also embrace an upgrade stage in a full manner, which will bring broader market space for the expansion of the structured cabling business of the Group.

Development strategies

The Group will implement various strategic measures including all-business growth and diversification through continuous optimisation and integration of upstream and downstream resources in the industry to become a leading manufacturer and technology service provider of optical fiber cable, digital communication cable, intelligent equipment control cable, structures cabling systems product, data center products and solutions in the communication industry of China.

Business plan

At present, the Group’s construction project of production line of new non-dispersive single-mode optical fiber and optical fiber cables is in the final stage. It is expected to be completed in the second half of 2021 and commence the mass production of optical fiber in November 2021. So far, while optimising the cost structure of optical cable, the Group has finalised the layout of the optical fiber business segment, thus laying a foundation for the diversified development of the optical fiber industry and bringing long-term returns to group companies, which will have the opportunities to leverage on their corporate technology strengths accumulated therefrom in the market, and boost industry influence and market competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group will adhere to the development strategy of industrial chain integration, product differentiation and market diversification. In a market-oriented manner, riding on the establishment of the new data center business segment, the Group will integrate its productivity resources, optimise the cost-effectiveness of parts and accessories procurement, and improve the business competitiveness of communication network engineering projects with existing marketing networks as well as concentrated marketing efforts toward targeted customer groups to improve the production capacity layout and distribution coverage of group companies and further enhance their comprehensive strength.

In addition to driving digital transformation, the rapid development of China's digital communication industry also brings about a lot of new markets for data transmission and communication network applications. The Group believes that the continuous optimisation of the upstream and downstream momentum of the industry chain, coupled with the integration and application of cross-industry and cross-region resources, will help seize market opportunities in a fast and effective manner to fulfill the mission of "optical fibers and cables connect the world" and the grand vision of continuous growth.

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 increased by approximately 14.6% from approximately RMB228.1 million for the Last Period to approximately RMB261.5 million for the Period. Revenue generated from sale of communication copper cables increased by approximately 65.6% to approximately RMB159.3 million (the Last Period: approximately RMB96.2 million) while revenue generated from sale of optical fiber cables decreased by approximately 38.6% to approximately RMB41.5 million (the Last Period: approximately RMB67.6 million) and revenue generated from sale of structured cabling system products slightly decreased by approximately 5.6% to approximately RMB60.7 million (the Last Period: approximately RMB64.3 million).

Gross profit and margin

Gross profit increased by approximately 17.8% to approximately RMB60.6 million for the Period from approximately RMB51.5 million for the Last Period, while the Group's gross profit margin remained stable at approximately 23.2% for the Period as compared to the one of approximately 22.6% for the Last Period.

Other income

Other income increased by approximately 356.5% from approximately RMB317,000 for the Last Period to approximately RMB1,447,000 for the Period, primarily attributable to the increase in government grant received during the Period.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 28.1% from approximately RMB15.7 million for the Last Period to approximately RMB20.1 million for the Period, primarily due to the increase of approximately RMB1.9 million in salaries and RMB1.3 million in transportation expenses, which are in line with the increase in the turnover for the Period.

Administrative expenses

Administrative expenses increased by approximately 22.8% from approximately RMB12.9 million for the Last Period to approximately RMB15.9 million for the Period, primarily due to the increase in research and development expenses of approximately RMB2.2 million from approximately RMB2.7 million for the Last Period to approximately RMB4.9 million for the Period.

Finance costs

Finance costs decreased by approximately 54.2% from approximately RMB5.2 million for the Last Period to approximately RMB2.4 million for the Period primarily due to a loan carried at a higher interest rate was repaid in July 2020.

Income tax expense

Income tax expense increased by approximately 99.9% from approximately RMB1.9 million for the Last Period to approximately RMB3.7 million for the Period, primarily due to the increase in profit before income tax expense. The effective tax rate was approximately 18.2% for the Period and approximately 13.2% for the Last Period.

Profit for the Period

As a result of the foregoing, profit for the Period increased by approximately 36.5% from approximately RMB12.3 million for the Last Period to approximately RMB16.8 million for the Period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2021, the Group had an aggregate of restricted cash and cash and cash equivalent of approximately RMB112.1 million (31 December 2020: approximately RMB73.0 million), representing an increase of approximately 53.4% as compared to that as at 31 December 2020.

BORROWINGS AND CHARGES ON THE GROUP'S ASSETS

As at 30 June 2021, the Group had bank and other borrowings of approximately RMB269.0 million (31 December 2020: approximately RMB193.4 million), which was secured by legal charge over the properties of the Group and the personal properties from the controlling shareholders and their associates. RMB167.5 million out of the bank and other borrowings are repayable within one year.

Gearing ratio

As at 30 June 2021, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 0.9 (31 December 2020: approximately 0.68).

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

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

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain bank and other borrowings of the Group as at 30 June 2021 and 31 December 2020 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 17 to the Interim Condensed Consolidated Financial Statement.

The Group's exposures to interest rate risk are detailed in note 21(a) to the Interim Condensed Consolidated Financial Statements.

Credit risk

As at 30 June 2021, 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 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 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 Group's exposures to credit risk are detailed in note 21(b) to the Interim Condensed Consolidated Financial Statements.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, 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 21(c) to the Interim Condensed Consolidated Financial Statements.

Capital commitments

As at 30 June 2021, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB39.4 million (31 December 2020: approximately RMB36.4 million).

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

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policies

As at 30 June 2021, the Group had 439 employees (31 December 2020: 412 employees). For the Period, the Group incurred staff costs of approximately RMB21.1 million (the Last Period: RMB19.2 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 2021, 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 (Note 2)	408,375,000	37.13%
Mr. Zhao Xiaobao	Interest in a controlled corporation (Note 3)	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.

Save as disclosed above, as at 30 June 2021, 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.

OTHER INFORMATION

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

As at 30 June 2021, 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 (Note 2)	408,375,000	37.13%
Point Stone Capital Co., Ltd.	Beneficial owner (Note 3)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.
2. These Shares are held by Arcenciel Capital, which is wholly owned by Ms. Wang Qiuping. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.
3. These Shares are held by Point Stone Capital, which is wholly owned by Mr. Zhao Xiaobao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

Save as disclosed above, as at 30 June 2021, 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 monopolise 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.

OTHER INFORMATION

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 11 June 2021.

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 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	5	261,479	228,096
Cost of sales		(200,858)	(176,645)
Gross profit		60,621	51,451
Other income	6	1,447	317
Selling and distribution expenses		(20,064)	(15,668)
Administrative expenses		(15,875)	(12,924)
Expected credit losses on financial assets		(3,190)	(3,767)
Finance costs	7	(2,396)	(5,235)
Profit before income tax expense	8	20,543	14,174
Income tax expense	9	(3,749)	(1,875)
Profit for the period		16,794	12,299
Profit for the period attributable to owners of the Company		16,794	12,299
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(100)	(609)
Other comprehensive income for the period, net of tax		16,694	(609)
Profit and total comprehensive income for the period		16,694	11,690
Earnings per share	10		
Basic and diluted		RMB0.015	RMB0.011

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	398,937	360,990
Prepayment for property, plant and equipment and intangible assets		30,961	17,820
Total non-current assets		429,898	378,810
Current assets			
Inventories	12	91,309	66,728
Trade and bills receivables	13	265,797	250,430
Deposits, prepayment and other receivables		80,687	68,970
Tax recoverables		665	–
Restricted cash	14	42,289	30,000
Cash and cash equivalents		69,763	43,025
Total current assets		550,510	459,153
Total assets		980,408	837,963
Current liabilities			
Trade and bills payables	15	117,655	58,633
Contract liabilities	16	3,658	6,625
Accruals, deposits received and other payables		49,109	41,300
Current tax liabilities		–	3,649
Bank and other borrowings	17	167,500	126,200
Lease liabilities		1,072	922
Amount due to a director		4,644	–
Total current liabilities		343,638	237,329
Net current assets		206,872	221,824
Total assets less current liabilities		636,770	600,634

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current liabilities			
Bank and other borrowings	17	105,485	86,232
Deferred tax liabilities		14,120	13,660
Lease liabilities		230	501
Total non-current liabilities		119,835	100,393
Total liabilities		463,473	337,722
NET ASSETS		516,935	500,241
EQUITY			
Share capital		9,361	9,361
Reserves		507,574	490,880
TOTAL EQUITY		516,935	500,241

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2021

	Attributable to owners of the company							
	Share capital RMB'000	Share premium* RMB'000	Capital reserves* RMB'000	Other reserves* RMB'000	PRC		Retained profits* RMB'000	Total RMB'000
					statutory reserve* RMB'000	Exchange reserve* RMB'000		
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
At 1 January 2021	9,361	130,289	190	3,028	50,701	(7,849)	314,521	500,241
Profit for the Period	-	-	-	-	-	-	16,794	16,794
Exchange differences arising on transaction of foreign operations	-	-	-	-	-	(100)	-	(100)
Total comprehensive income for the Period	-	-	-	-	-	(100)	16,794	16,694
Appropriation to statutory reserves	-	-	-	-	2,596	-	(2,596)	-
At 30 June 2021 (unaudited)	9,361	130,289	190	3,028	53,297	(7,949)	328,719	516,935

* 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 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cash flows from operating activities		
Profit before income tax expense	20,543	14,174
Adjustments for:		
Depreciation of property, plant and equipment	10,962	9,574
Gains on disposal of property, plant and equipment	–	57
Interest income	(55)	(416)
Finance costs	2,396	5,235
Expected credit loss on financial assets	3,190	3,767
Operating profit before working capital changes	37,036	32,391
(Increase)/decrease in trade and bills receivables	(18,557)	56,856
Increase in deposits, prepayments and other receivables	(11,717)	(29,955)
(Increase)/decrease in inventories	(24,581)	248
Increase/(decrease) in trade and bills payables	59,022	(7,532)
Increase/(decrease) in accruals, deposits received and other payables	7,809	(3,019)
Increase/(decrease) in contract liabilities	(2,967)	3,006
Increase in amount due to a director	4,644	–
Cash generated from operations	50,689	51,995
Profits tax paid	(7,603)	(5,691)
Net cash generated from operating activities	43,086	46,304
Cash flows from investing activities		
Purchase of property, plant and equipment	(48,511)	(22,443)
Prepayments of property, plant and equipment	(13,141)	–
Interest income received	55	416
Net cash used in investing activities	(61,597)	(22,027)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Proceeds from bank borrowings	139,153	54,000
Repayment of bank borrowings	(78,600)	(71,115)
(Increase)/decrease in restricted cash pledged	(12,289)	22,468
Payment of lease liabilities	(519)	(697)
Interest paid	(2,396)	(5,235)
Net cash generated from/(used in) financing activities	45,349	(579)
Net decrease in cash and cash equivalents	26,838	23,698
Cash and cash equivalents at beginning of the period	43,025	74,440
Effect of foreign exchange rate changes	(100)	(609)
Cash and cash equivalents at end of the period	69,763	97,529

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 authorised for issue by the Board of Director of the Company on 31 August 2021.

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 2020 (the “**2020 Financial Statements**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2021.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

COVID-19-Related Rent Concessions

The new or amended HKFRSs that are effective from 1 January 2021 did not have any significant impact on the Group’s accounting policies.

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 2020 Financial Statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2021 (Unaudited)			Total RMB'000
	Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	
Reportable segment revenue	41,468	159,311	60,700	216,479
Reportable segment profit	2,986	14,519	18,167	35,672

	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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. SEGMENT INFORMATION (CONTINUED)

(ii) Reconciliation of profit or loss:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment results	35,672	33,088
Other income	1,447	317
Unallocated expenses	(14,180)	(13,996)
Finance costs	(2,396)	(5,235)
	20,543	14,174
Income tax expense	(3,749)	(1,875)
	16,794	12,299

(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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income and others	55	416
Exchange losses, net	–	(507)
Government grants	1,000	317
Gains on sale of scrap materials	392	91
	1,447	317

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest charge on bank and other borrowings	4,181	9,448
Interest charge on lease liabilities	40	37
Less: Amount capitalised	(1,825)	(4,250)
	2,396	5,235

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories recognised as cost of sales	200,858	176,645
Research and development expenditure	4,884	2,695
Depreciation of property, plant and equipment	10,302	8,485
Depreciation of right-of-use asset	660	1,089
Short-term lease	736	865
Expected credit losses/(write-back) on financial assets	3,190	3,767
Staff costs (including directors' emoluments):		
– Salaries and wages	18,086	17,104
– Defined contribution scheme	3,054	2,063
	21,140	19,167

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

9. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC EIT	3,289	1,484
Deferred income tax charge to profit or loss for the period	460	391
Income tax expenses	3,749	1,875

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 RMB16,794,000 (the Last Period: approximately RMB12,299,000) 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	
	2021	2020
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share	0.015	0.011
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 2021	360,990
Additions	48,909
Depreciation	(10,962)
Net book value as at 30 June 2021	398,937

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Audited RMB'000
Net book value as at 1 January 2020	244,886
Additions	136,012
Depreciation	(19,908)
Net book value as at 31 December 2020	360,990

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. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	20,544	26,415
Finished goods	70,765	40,313
	91,309	66,728

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. TRADE AND BILLS RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	276,155	253,972
Bills receivables (Note)	800	4,426
	276,955	258,398
Less: Loss allowances	(11,158)	(7,968)
	265,797	250,430

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	72,717	93,840
More than 1 month but within 2 months	38,216	64,120
More than 2 months but within 3 months	32,926	47,459
More than 3 months but within 6 months	28,730	36,842
More than 6 months but within 1 year	92,424	7,659
More than 1 year	784	510
	265,797	250,430

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 21(b).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. 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.

15. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	75,546	42,517
Bills payables	42,109	16,116
	117,655	58,633

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	60,364	21,918
More than 1 month but within 2 months	29,963	15,098
More than 2 months but within 3 months	9,110	6,419
More than 3 months but within 6 months	2,458	13,127
More than 6 months but within 1 year	14,568	869
More than 1 year	1,192	1,202
	117,655	58,633

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

16. CONTRACT LIABILITIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contract liabilities arising from:		
Sale of goods	3,658	6,625
	3,658	6,625
		RMB'000
Balance as at 1 January 2021		6,625
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		(6,625)
Increase in contract liabilities as a result of billing in advance of sales of goods		3,658
Balance as at 30 June 2021		3,658

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. BANK AND OTHER BORROWINGS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Bank borrowings:		
– Secured (ii), (iii) & (iv)	185,500	150,500
– Unsecured (iii) & (iv)	4,000	19,000
	189,500	169,500
Other borrowing:		
– Secured (ii), (iii)	83,485	42,932
	272,985	212,432
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
On demand or within one year	167,500	126,200
Between one to two years	44,485	27,658
Between two to five years	61,000	58,574
	272,985	212,432

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

- (i) The bank borrowings with effective interest rate is 4.12% (2020: 5.41%) 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Land and buildings	60,573	62,725
Bank deposits	30,000	30,000
	90,573	92,725

- (iii) As at 30 June 2021 and 31 December 2020, guarantees were provided by the controlling shareholders and their associates for the bank and other borrowings.
- (iv) A summary of facilities granted by banks and the amounts utilised by the Group at 30 June 2021 and 31 December 2020 set out below:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Amounts granted	189,500	169,500
Amounts utilised	189,500	169,500

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

18. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets		
<i>Amortised costs:</i>		
Trade, bills and other receivables	308,812	286,689
Restricted cash	42,289	30,000
Cash and cash equivalents	69,763	43,025
Financial liabilities		
<i>Amortised costs:</i>		
Trade, bills and other payables	160,532	92,821
Bank and other borrowings	272,985	212,432
Leased liabilities	1,302	1,423

19. CAPITAL COMMITMENTS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 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	39,410	36,420

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

20. RELATED PARTY TRANSACTIONS

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

21. 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. No bank and other borrowings of the Group as at 30 June 2021 and 31 December 2020 bore interest at floating rates. The interest rate and repayment terms of borrowings at the end of each reporting period are disclosed in note 17.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Change in profit after tax and retained profits:		
+/- 100 basis points	-/+ 197	-/+ 97

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 would 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 2021 and 31 December 2020 amounted to approximately RMB137,389,000 and approximately RMB130,424,000 respectively, and accounted for 49.6% and 50.5% 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

As at 30 June 2021 and 31 December 2020, 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	61-90 days past due	91-365 days past due	More than one year past due	Total
At 30 June 2021							
Expected credit loss rate	1.3%	1.3%	42.5%	83.0%	100%	100%	
Gross carrying amount (RMB'000)	233,369	32,763	5,375	775	2,197	2,476	276,955
Loss allowance provision (RMB'000)	3,119	438	2,285	643	2,197	2,476	11,158
At 31 December 2020							
Expected credit loss rate	1.1%	-	-	47.4%	80.1%	100%	
Gross carrying amount (RMB'000)	252,590	-	-	179	2,897	2,732	258,398
Loss allowance provision (RMB'000)	2,832	-	-	84	2,320	2,732	7,968

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

As at 30 June 2021 and 31 December 2020, the loss allowance provision for trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

	Trade and bills receivables RMB'000	Total RMB'000
At 1 January 2021	7,968	7,968
Provision for loss allowance recognised in profit or loss	3,190	3,190
At 30 June 2021	11,158	11,158
At 1 January 2020	4,050	4,050
Provision for loss allowance recognised in profit or loss	3,918	3,918
At 31 December 2020	7,968	7,968

As at 30 June 2021 and 31 December 2020, the gross carrying amount of trade and bills receivables was RMB276,955,000 and RMB258,398,000 respectively and thus the maximum exposure to loss was RMB11,158,000 and RMB7,968,000 respectively.

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the period:

- Increase in days past due over 30 days resulted in an increase in loss allowance of RMB2,903,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. 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 2021					
Trade, bills and other payables	160,532	160,532	160,532	-	-
Bank and other borrowings	272,985	287,879	174,594	45,809	67,476
Lease liabilities	1,302	1,369	1,129	240	-
	434,819	449,780	336,255	46,049	67,476
As at 31 December 2020					
Trade, bills and other payables	92,821	92,821	92,821	-	-
Bank and other borrowings	212,432	224,876	131,918	31,402	61,556
Lease liabilities	1,423	1,490	979	511	-
	306,676	319,187	225,718	31,913	61,556

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. 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 2021 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 2021 (Unaudited)		31 December 2020 (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	7	2,015	7	1,809

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. 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 2021 (Unaudited)		31 December 2020 (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)%	1 (1)	5% (5)%	1 (1)
HKD	5% (5)%	101 (101)	5% (5)%	90 (90)

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 2021 has been performed on the same basis.

22. EVENTS AFTER THE END OF REPORTING DATE

From 30 June 2021 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.