

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

# Potevio 中国普天

## 成都普天電纜股份有限公司

### CHENGDU PUTIAN TELECOMMUNICATIONS CABLE COMPANY LIMITED

*(a sino-foreign joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 1202)

### ANNOUNCEMENT INTERNAL CONTROL REVIEW

References are made to (i) the press release (the “**Press Release**”) published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 5 July 2018; and (ii) the announcement of Chengdu PUTIAN Telecommunications Cable Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 13 July 2018 (the “**Announcement**”). Terms used in this announcement shall have the same meanings as defined in the Press Release and the Announcement unless the context requires otherwise.

According to the Press Release and the Announcement, the Company engaged Gram Capital Limited (“**Gram Capital**”) to conduct a thorough review of and make recommendations to improve the Company’s internal controls to ensure compliance with the Listing Rules. The written report regarding the aforesaid matter (the “**Internal Control Review Report I**”) was submitted by Gram Capital to the Stock Exchange on 5 September 2018.

#### SCOPE OF REVIEW

As the independent internal control reviewer, Gram Capital conducted a detailed review on the internal control and compliance systems of the Company. As agreed by the directors of the Company (the “**Directors**”) and the Company, the review objectives in the Internal Control Review Report I included the following:

To perform internal control review of the Group and make recommendations for improvements in respect of

- procedures of assessment, report, approval for the Listing Rules related matters (including but not limited to transaction(s) under Chapter 14A of the Listing Rules) that the Group is proceeding or propose to proceed; and
- communication channel for the compliance of the above mentioned procedures by all Directors, company secretary and senior management of the Group.

## FINDINGS

Based on the results of Gram Capital’s review, Gram Capital considered that the Company failed to adopt high level controls in certain areas within Gram Capital’s scope of review works. Findings were highlighted and relevant recommendations were made in this respect. A summary of major findings and issues Gram Capital identified were highlighted below:

- As advised by the Directors, the Group developed an electronic office system — Office Automation System for the purpose of office administrative works, including but not limited to, application for approval of contracts, application for expenses claim, filing for connected persons (關聯人士備案), notification, etc.. The Office Automation System was implemented by Company level since 2015 and by Company’s subsidiaries since 2017.
- The Company established procedures for the Group members signing any agreement with contract amount of more than RMB20,000.

As advised by the Directors, the Group members are required to comply with the contract approval procedure by using the Group’s Office Automation System.

However, there is no clear assessment procedure for the Listing Rules implication for proposed transaction.

- Currently, all proposed agreement (regardless of amount) with identified connected person (based on the Company’s database) will be submitted through Office Automation System to Office of the Board of Directors & Supervisors for assessment. However, the reporting flow chart did not reflect procedures regarding proposed agreement with identified connected person.
- Despite that the Company prepared a list of connected persons, the Company only requests all departments of the Company and its subsidiaries to update the connected persons database quarterly.
- There was only one staff of Office of the Board of Directors & Supervisors to handle internal control and Listing Rules compliance related issues.

In addition, according to the Press Release, the Listing Committee found certain material deficiencies (the “**Material Deficiencies**”) in the Company’s internal controls which partly caused the Company’s breaches as set out in the Press Release.

According to the Internal Control Review Report I, based on Gram Capital’s internal control review work, including (i) review the Company’s internal control manuals; (ii) interview and discuss with staff of Office of the Board of Directors & Supervisors, who is mainly responsible for, among other things, the Listing Rules compliance issues, Gram Capital noted the following:

- (i) As mentioned above, the Group developed an electronic office system — Office Automation System for the purpose of office administrative works, including but not limited to, application for approval of contracts, application for expenses claim, filing

for connected persons (關聯人士備案), notification, etc.. The Office Automation System was implemented by Company level since 2015 and by Company's subsidiaries since 2017.

- (ii) An internal control manual has been adopted and applied to the Group, in particular, there is a chapter named “子公司管理內控制度 (internal control for management of subsidiaries\*)” containing in the internal control manual.
- (iii) Since 2017, the Company requires management of Company's subsidiaries to attend training courses in respect of Listing Rules compliance matters as provided by Company's legal adviser.

Based on the above, Gram Capital consider that the Group made remedies on internal controls in respect of the Material Deficiencies.

## RECOMMENDATIONS

Set out below are the key recommendations made by Gram Capital:

- The Company, in particular, the department which is responsible for internal control system/manual review, is reminded to conduct a review at least annually on the effectiveness of internal control manual and to update the same as if necessary. The remark on version of internal control manual should be updated upon the Board reviewing.
- All transactions with transaction/contract amount more than RMB500,000 should be executed subject to prior examination by Finance Department on percentage ratios (as defined in Rule 14.04(9) of the Listing Rules) and (if appropriate) Office of the Board of Directors & Supervisors regarding the possible Listing Rules implication with following steps:

If agreement regarding proposed transaction is submitted through Office Automation System, relevant staff will start from step (iii), otherwise, the approval procedure should be start from (i).

- (i) A form for proposed transaction (the “**Preliminary Transaction Form**”) should be filled out by the initiating staff each time for any proposed transaction (including acquisition/disposal of assets/company, provision/acceptance of services) and advance with monetary value over RMB500,000 or cumulative annual monetary value over RMB500,000 (e.g. entering into tenancy agreement). Such form should then be passed to relevant department head.
- (ii) After reviewing the Preliminary Transaction Form, the department head should circulate the Preliminary Transaction Form to Finance Department for his/her further action (i.e. assess size of proposed transactions). If such form is initiated by staff in subsidiary of the Company, the department head of the subsidiary should report to general manager of the subsidiary. The general manager should then circulate the Preliminary Transaction Form to Finance Department for his/her further action (i.e. assess size of proposed transactions).

- (iii) After receiving the Preliminary Transaction Form or receiving notification from Office Automation System, Finance Department should assess the size of proposed transaction. If the highest percentage ratio (as defined in Rule 14.04(9) of the Listing Rules) equals to or exceeds 4%, Finance Department would notify Office of the Board of Directors & Supervisors and pass the Preliminary Transaction Form together with results of percentage ratio to the department.
  - (iv) After receiving the notification from Finance Department or receiving notification from Office Automation System, Office of the Board of Directors & Supervisors should fill in a transaction assessment form (the “**Transaction Assessment Form**”) and assess the notifiable/connected transaction implication with company secretary’s assistance.
  - (v) To facilitate timely completion of the Transaction Assessment Form, responsible staff were recommended to update the size tests calculation at least bi-weekly based on the updated financial information and size of market capitalisation of the Company.
  - (vi) The Transaction Assessment Form should be completed and (a) passed to Chairman/Vice Chairman within one day of receipt of the relevant Preliminary Transaction Form; and (b) kept by the Company for record for at least three years.
  - (vii) In the event that, based on the completed Transaction Assessment Form, the subject transaction constitutes notifiable/non-fully exempted connected transactions for the Company, Office of the Board of Directors & Supervisors should provide such form for board of directors’ discussion.
  - (viii) With the assistance of professional parties, company secretary and/or Office of the Board of Directors & Supervisors should complete the transaction procedure form (the “**Transaction Procedure Form**”) and discuss the same with the Board.
  - (ix) After due consideration, the Board should direct company secretary and/or Office of the Board of Directors & Supervisors to take necessary actions as set out under the Transaction Procedure Form for the subject transaction.
- In addition to the quarterly update of the connected persons list, the list should also be updated when there is a new appointment of director or senior management of the Company and/or its subsidiaries. The list should be circulated to all staffs of the Group. The database regarding connected person identities should also be updated on the aforesaid frequency.
  - As the connected persons list/database is very important, the Company is advised to consult its professional parties and company secretary when prepare/update the list/database or assess identity of new client/supplier.
  - All transactions (regardless of amount) with connected persons as shown in the abovementioned connected persons list should be executed subject to prior examination by Office of the Board of Directors & Supervisors with steps as mentioned above.

- Data relating to continuing connected transactions of the Company (including quarterly transaction amounts and cumulative amounts) should be reported by head of relevant department of the Company and/or general manager of subsidiary and reviewed on a monthly basis by Finance Department. If the transaction amount reaches 60% of the annual caps at any point of the year, the relevant department of the Company and/or general manager of subsidiary should notify the finance department for each of the next individual transaction to ensure the annual caps will not be exceeded.
- The reporting flow chart should reflect procedures regarding proposed agreement (regardless of amount) with identified connected person.
- The Directors and Management were recommended to attend more Listing Rules training to strengthen their understanding on the Listing Rules, in particular Chapter 13, Chapter 14 and Chapter 14A of the Listing Rules.
- As the general manager of the Company's subsidiary will be responsible for the reporting and circulate the Preliminary Transaction Form to Office of the Board of Directors & Supervisors, all general manager(s) should also attend trainings regarding the Listing Rules for at least five hours per year.
- Office of the Board of Directors & Supervisors was recommended to obtain written confirmation for the receipt of updated guidance and internal control manual by the Directors, Management and general manager of subsidiaries.
- To strengthen manpower allocation for Listing Rules compliance function.
- To establish 上市規則監察工作小組 (Working Group dedicated to Listing Rules Monitoring\*, the “**Working Group**”), which should constitute, at least, Chairman, general manager of the Company, staff of Office of the Board of Directors & Supervisors, staff of 審計監察法務部 (Internal Audit, Supervision & Legal Department\*), staff of Finance Department, general manager of each of the Company's subsidiary. The Working Group would be mainly focused on supervision of the Group's Listing Rules compliance issues.

The senior staff of the Working Group must take no less than 10 hours of relevant professional training regarding Listing Rules per annum, other staff of the Working Group must take no less than five hours of the abovementioned professional training per annum.

- The Directors, general manager(s) of subsidiaries must ensure that the internal control manual for transactions would be strictly followed. Warnings/disciplinary actions should be given to the staff who does not follow the internal control manual.
- The Company was recommended to prepare a checklist on Appendix 14 to the Listing Rules to check if any provision was not complied with and make proper disclosure.
- The Office of the Board of Directors & Supervisors should be responsible for identifying any Listing Rules changes and then circulate the updated information on the Listing Rules to all Directors and Management by Office Automation System/emails.

- The Company was recommended to prepare a checklist on at least Appendix 16 to the Listing Rules to check if any provision was not complied with and make proper disclosure.

As confirmed by the Directors, all these findings and recommendations were agreed by the Directors and management. The Directors and management also confirmed that they would fully implement Gram Capital's recommendations to strengthen and enhance the Company's internal control system. By fully implementation of Gram Capital's recommendations as listed out in Internal Control Review Report I, the Group will further enhance its internal controls and address the Material Deficiencies.

Furthermore, the Company believes that by adopting the recommendations in the Internal Control Review Report I, the Directors and management would be able to improve corporate governance within the Company and ensure the Company's compliance with the Listing Rules.

A follow-up review will be conducted by Gram Capital and a further report on the progress of the implementation of the remedial measures of the Company proposed by Gram Capital will be issued by Gram Capital within a further period of two months after the issue of the Internal Control Review Report I.

By Order of the Board  
**Chengdu PUTIAN Telecommunications Cable Company Limited**  
**Zhang Xiaocheng**  
*Chairman*

Chengdu, the PRC, 17 September 2018

*As at the date of this announcement, the Board comprises:*

*Executive Directors:* *Mr. Zhang Xiaocheng (Chairman), Mr. Wang Micheng, Mr. Han Shu, Ms. Xu Liying, Ms. Liu Yun and Mr. Fan Xu*

*Independent non-executive Directors:* *Ms. Mao Yaping, Mr. Xiao Xiaozhou and Mr. Lin Zulun*

\* *For identification purposes only*