



長飛光纖光纜股份有限公司

YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LIMITED COMPANY

Stock code: 6869 HK

# 2017年中期業績報告 Interim Results



August 2017

YOFC 长飞

# Today's Agenda

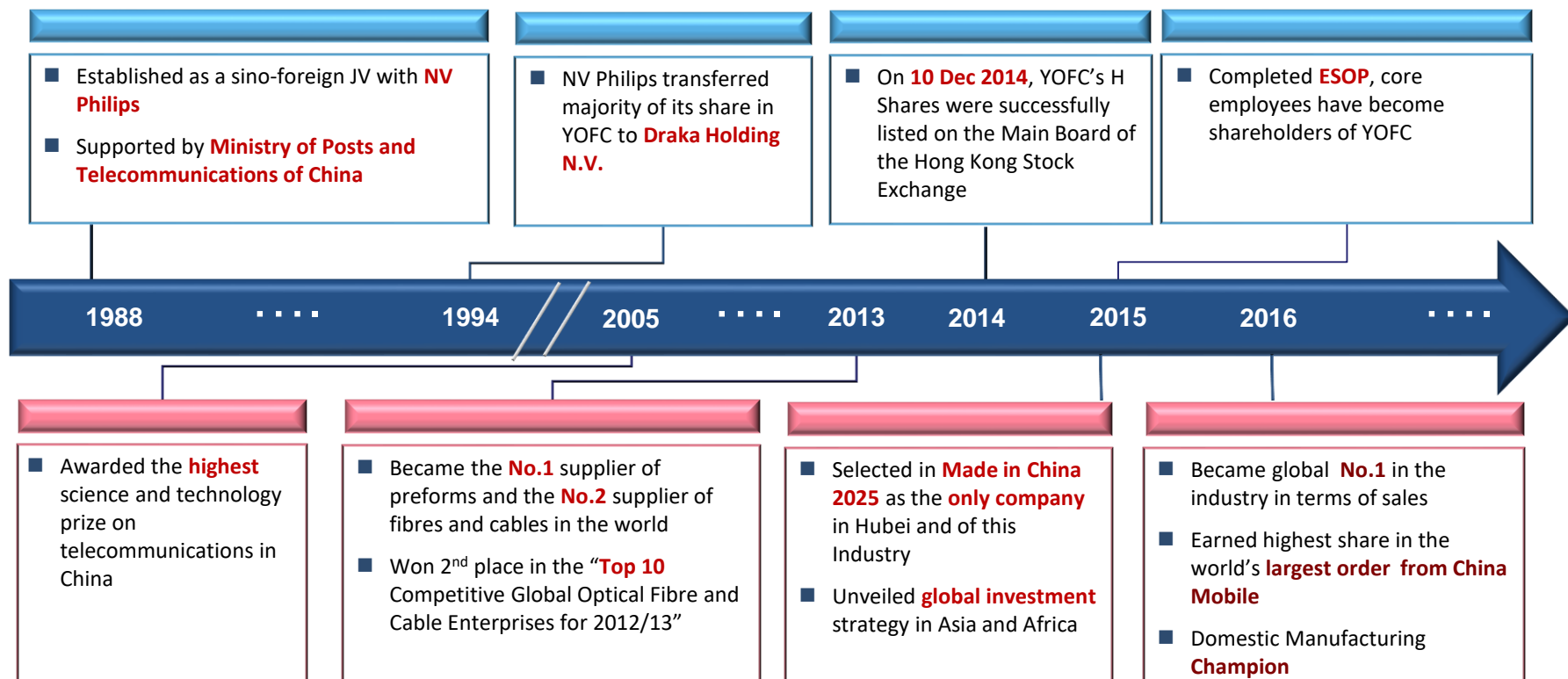
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- 1 YOFC Overview
- 2 Achievements Attained in 1H 2017
- 3 Financial Performance
- 4 Strategies and Outlooks

# YOFC Overview

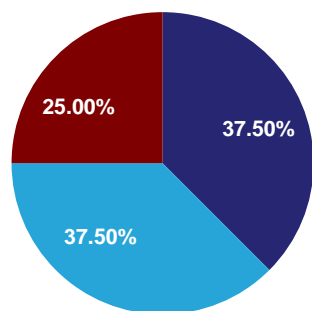
# YOFC at a Glance

Possessing Leading Optical Fibre Knowledge and Well Recognised by the World Telecom Market



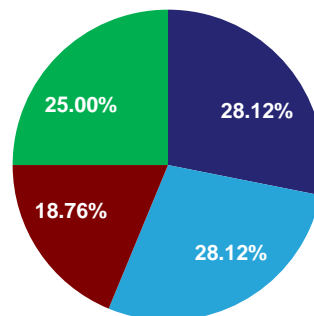
# YOFC Shareholding Structure

Pre - IPO



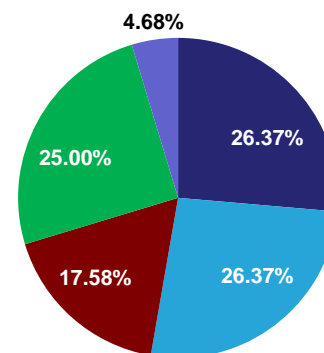
■ Huaxin ■ Draka ■ YCIG

Post - IPO



■ Huaxin ■ Draka ■ YCIG ■ Public H Shareholders

Post - ESOP



■ Huaxin ■ Draka ■ YCIG ■ Public H Shareholders  
■ Core Employees

- **China Huaxin** is a state-owned enterprise and is an investment and operational platform for foreign cooperation and technological innovations in China's information industry.
- **Draka**, established in 1910, is a subsidiary of Prysmian S.p.A., a world leader in the energy and telecom cables and systems industry and Prysmian's shares are listed on the Milan Stock Exchange (Stock Code : PRYMY).
- **YCIG**, or Yangtze Communications, was established in 1996 and is a high-tech company listed on the Shanghai Stock Exchange (Stock Code : 600345).
- **Core Employees** hold a 4.68% of current total issued shares. The subscription was completed in Dec 2015.

# YOFC Major Products and Solutions

## Optical Fibre Preform



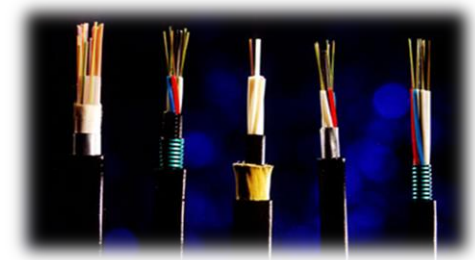
- Feed materials from which optical fibres are drawn
- Most important technical step in the entire value chain

## Optical Fibre



- Solid strands of hair-thin, high quality glass
- Electrical signals are converted into light waves and transmitted through fibre

## Optical Fibre Cable



- Optical fibres bundled together into cables
- Bundled fibres were encased in protective jackets

## Specialty Fibre and Cable



- Used in mining, aerospace, military, medical industries, etc.
- We also provide integrated service solution using specialty fibre and cable

## Cabling Solutions



- YOFC Connectivity (YOFC 75%) operates in the cabling solutions businesses
- integrated system in data centers, industrial control, FTTx, etc.

## Active Optical Cables (AOC)

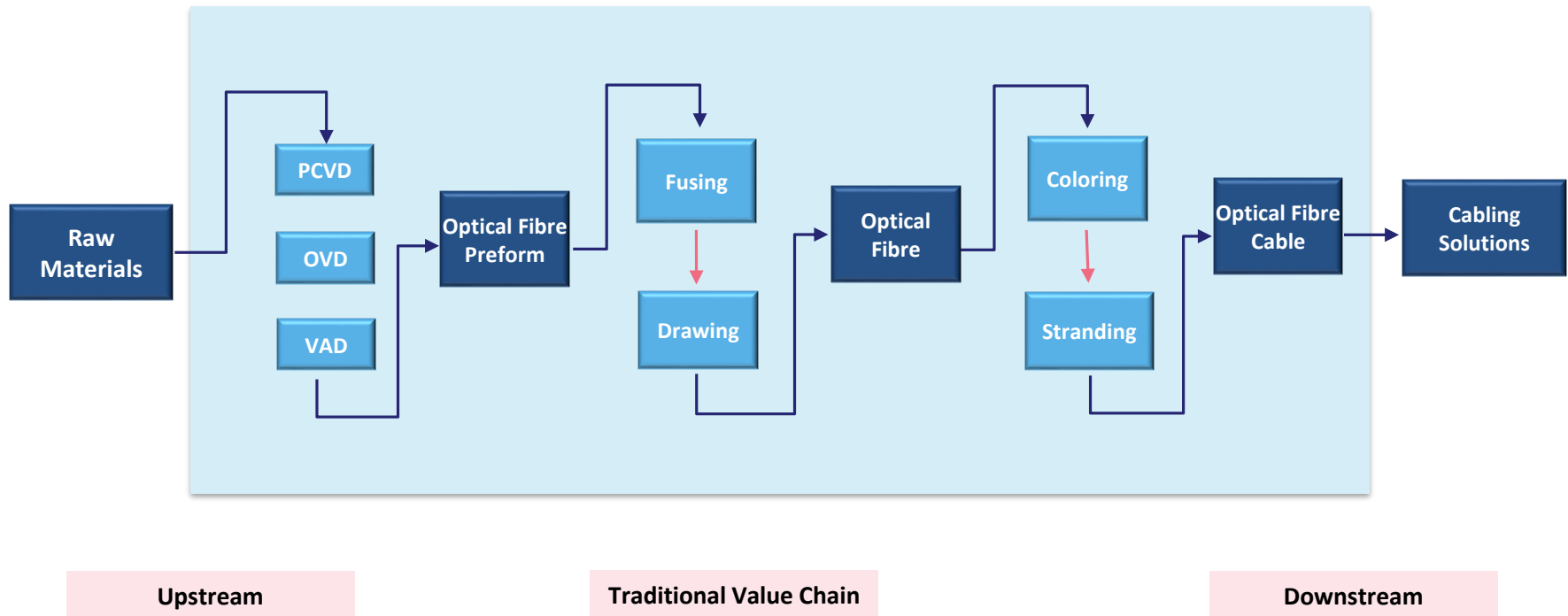


- Connect consumer electronic devices, and within data centers
- AOC can significantly increase connection speed and save energy

# YOFC Main Value Chain Overview

**Headquartered in Wuhan,** we operate in the optical fibre preform, optical fibre and optical fibre cable industry.

Focusing on core business, we have the longest value chain in the industry



# **Achievements Attained in 1H 2017**



# Overview of 1H 2017 Performance

## Outstanding Operating Results

Revenue  **26.2%**

Reached RMB 4.64 Billion

Gross Profit  **53.0 %**

Reached RMB 1.24 Billion

Net Profit  **61.6 %**

Reached RMB 556 Million

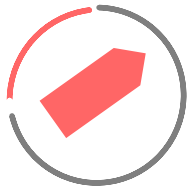
Overseas Revenue  **46.1 %**

Reached RMB 522 million

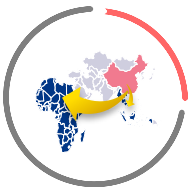
*Note: Detailed information will be further discussed in the financial part*

# YOFC Highlights

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Largest preform resource worldwide  
Outstanding **ROE** & profitability



Long been a foreign-sino JV and now a HK listed company  
Better positioned to **penetrate overseas** markets



Remained No. 1 in global preform, fibre and cable market  
Highly valued **YOFC** brand and long proven products **quality**

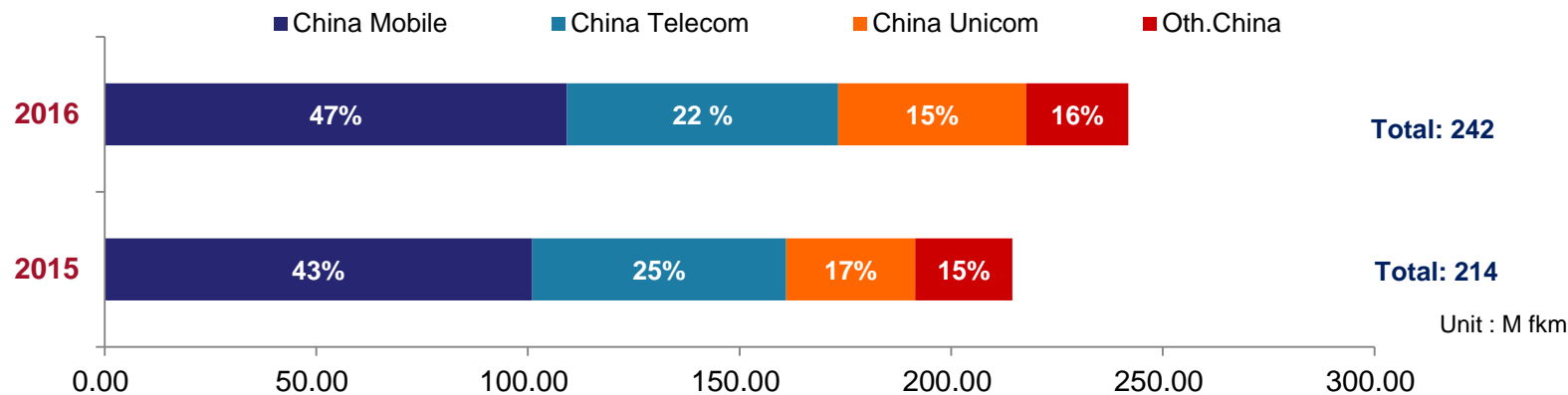


Only company to master all three preform production processes  
**Smart Manufacturing** leader in the industry

# Domestic Market Introduction

## Demands remain strong in 1H 2017

- For **China Mobile**, 2<sup>ND</sup> batch tender volume reached **67.6m fkm**, a 10% higher than that of the first batch
- For **China Unicom**, tender price for optical fibre reached **RMB62/fkm**; tender volume reached **58.3m fkm**
- **326,000** new base stations were built, total number of base stations reached **5.92 million**
- New optical cable length amounted to 3.6 million km, a **23.3%** increase
- Through Jan to Jun 2017, mobile network traffic reached 8.89 billion G, a **136.8%** increase
- 5-year anti-dumping for single-mode optical fibre imported from **the U.S and Europe**, beginning from April 2017
- 5-year anti-dumping for single-mode optical fibre imported from **Japan and Korea**, beginning from Jan 2017



Source: CRU

# Key Milestones in 1H 2017

## Strengthened market position

-  Maintained **leading position** in the global optical fibre preform, optical fibre and optical cable industry
-  Consecutively ranked **No. 1** in the world's **largest** central purchase from **China Mobile** twice
-  Will co-host this most important conference in the industry again with **CRU** again

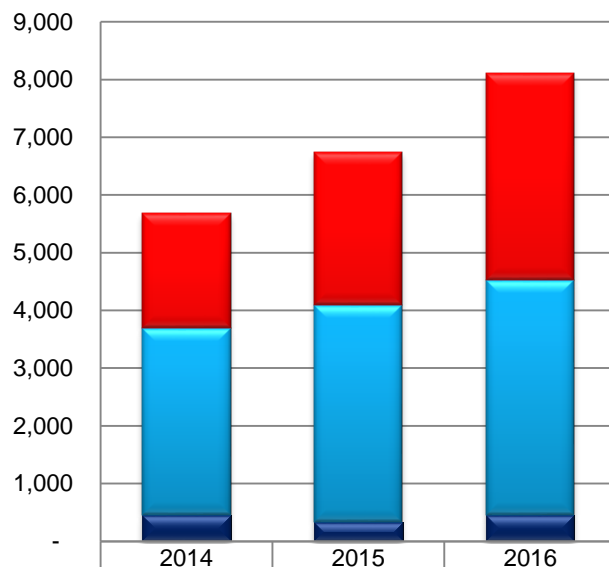
## Technology breakthroughs

-  6 meters – the world's **largest optical fibre preform** was produced by our own equipments
-  Advanced preform and fibre manufacturing project won second prize of **Hubei Science & Technology Progress Award**
-  ULL fiber took **first prize** from **China Institution of Electronics**

# Financial Performance in 1H 2017

# Revenue

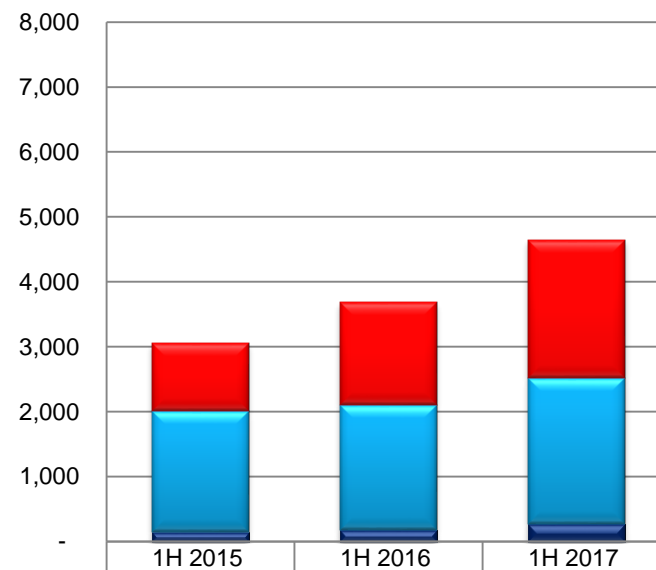
Revenue in Year (in RMB'M)



■ Cables	1,989	2,643	3,581
■ Preforms and Fibres	3,231	3,756	4,073
■ Others	457	331	448

Total: 5,677 6,731 8,102

Revenue in 1<sup>st</sup> Half Year (in RMB'M)



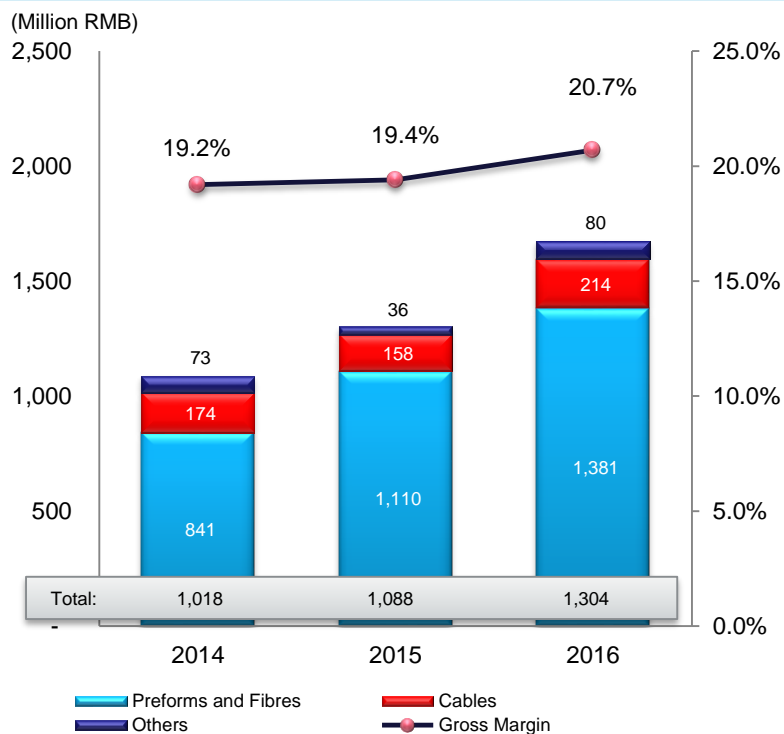
■ Cables	1,048	1,574	2,126
■ Preforms and Fibres	1,860	1,929	2,248
■ Others	142	174	266

Total: 3,050 3,678 4,640

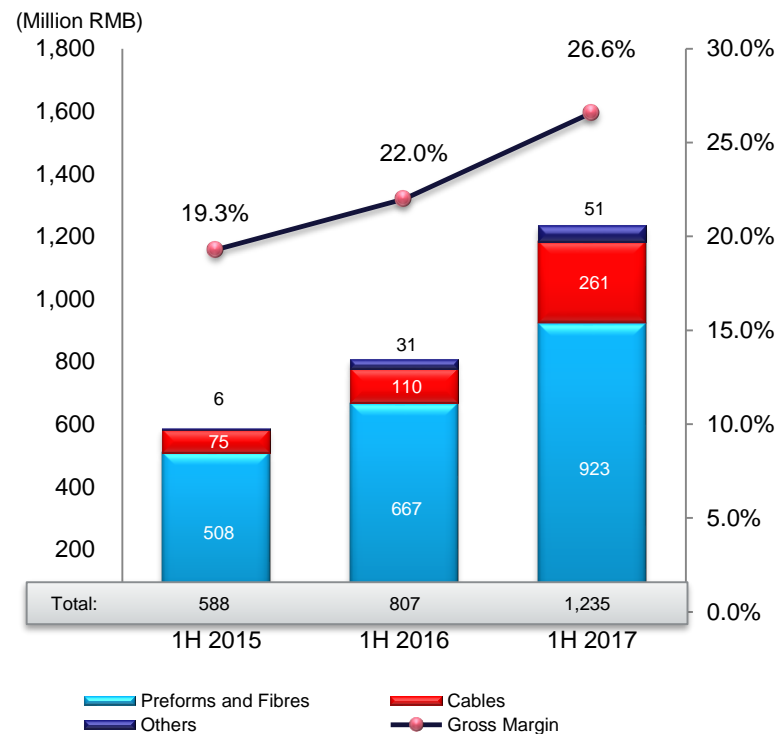
- Preforms and fibres segment increased by **16.5%** compared with the same period last year
- Cables segment increased by **35.1%** compared with the same period last year
- Other segment increased by **52.7%** compared with the same period last year because of the development of the our **new businesses** including RF cables, indoor cabling, cloud computing and network construction and services

# Profitability

## Gross Profit and Gross Margin in Year



## Gross Profit and Gross Margin in 1st Half Year



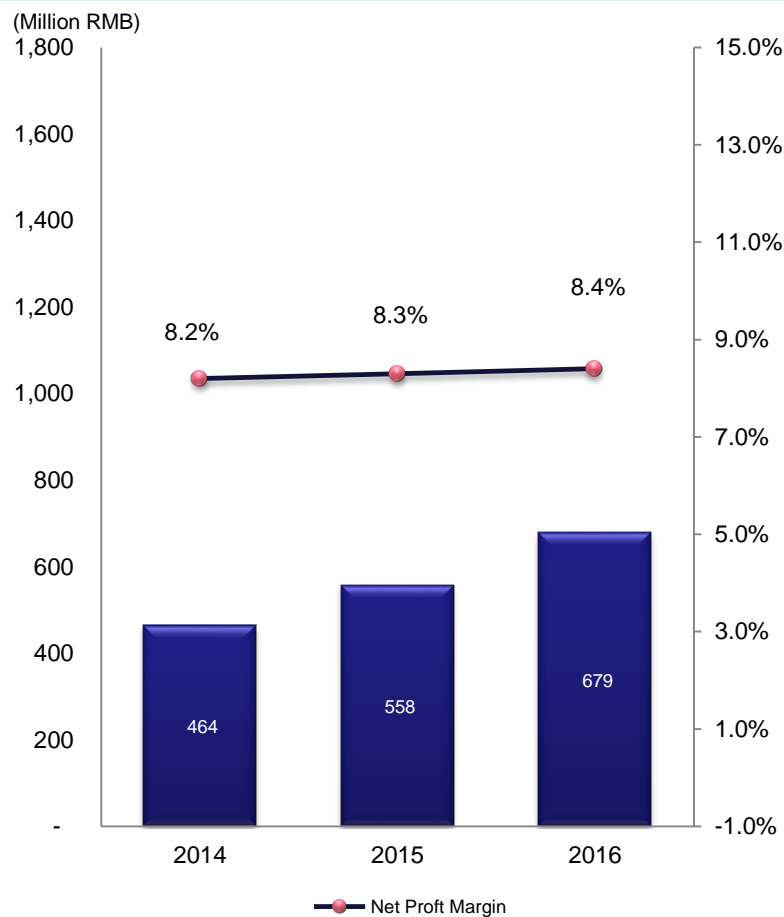
Our gross profit increased by **53.0%** as compared to the same period of last year, while our gross margin followed an upward trend and reached **26.6%**

For Preforms and fibres segment, the gross margin increased from 34.6% in 1H2016 to **41.1%** in 1H2017

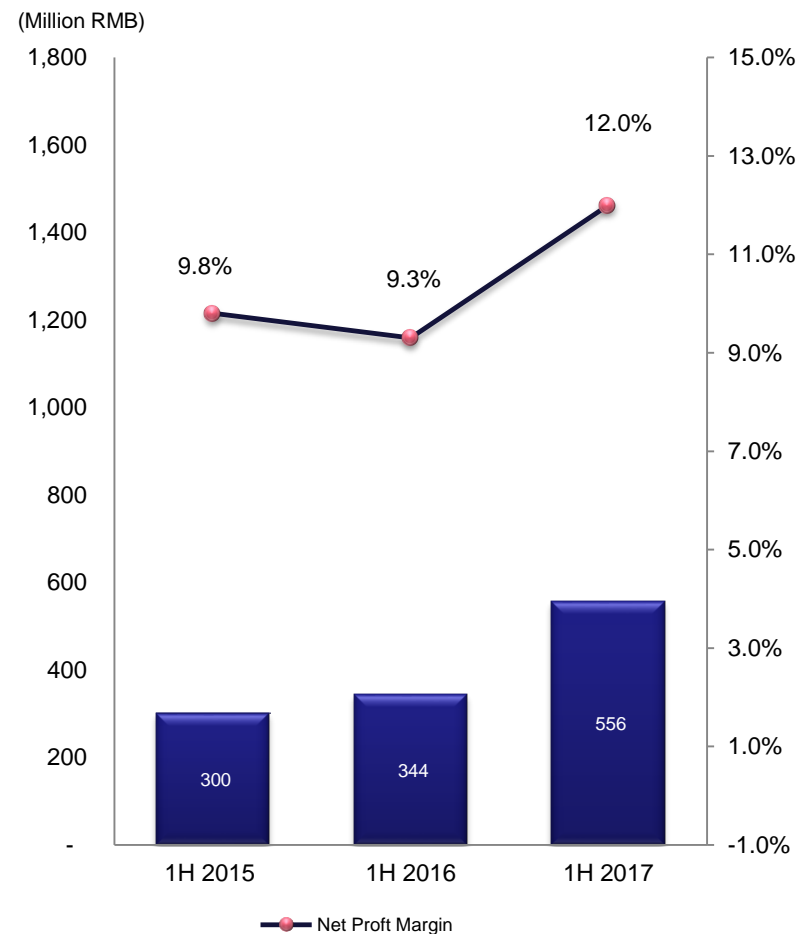
For Cables segment, the gross profit also increased from 7.0% in 1H2016 to **12.3%** in 1H2017

# Profitability

## Net Profit and Net Profit Margin in Year



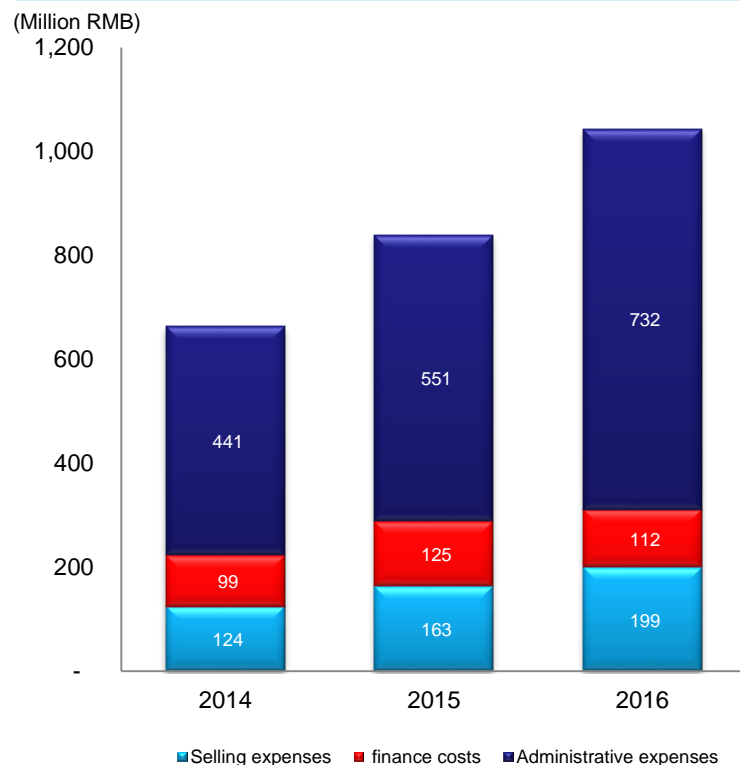
## Net Profit and Net Profit Margin in 1st Half Year



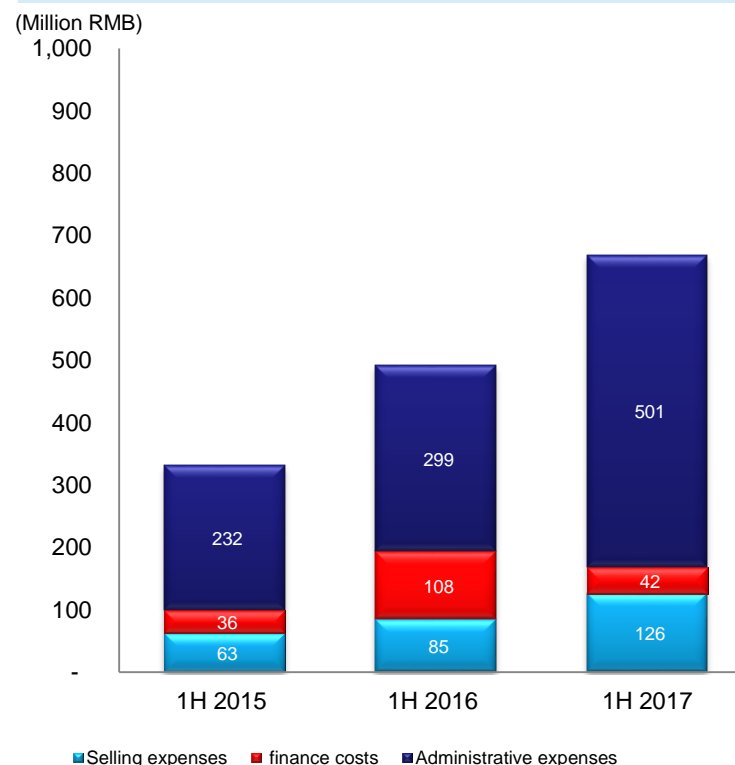


# Cost Management

Expenses in Year



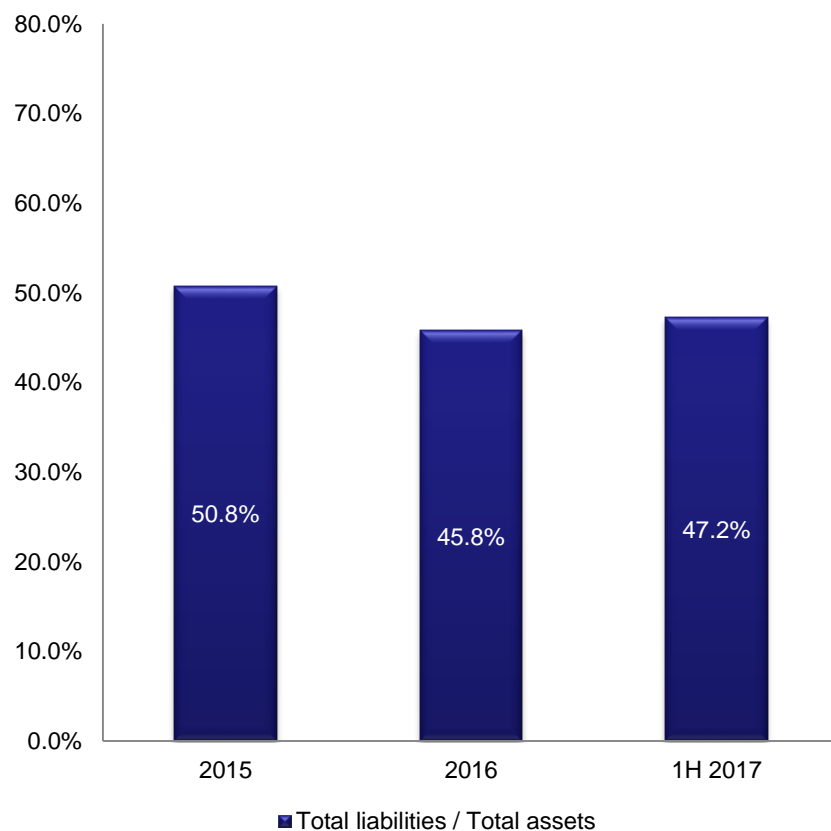
Expenses in 1st Half Year



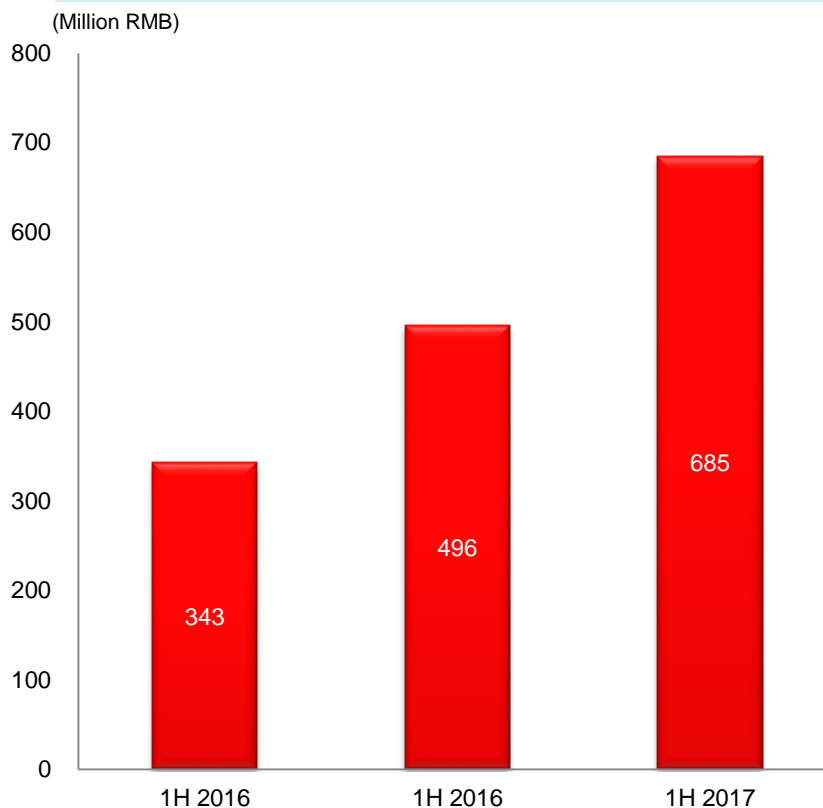
- The increase in selling expenses in 1H2017 was mainly due to more transportation costs. SE remained at **2.7%** (2016: 2.5%) of total revenue.
- The increase in administrative expenses in 1H2017 was mainly of the increase in research and development expenses, staff costs, as well as administrative expenses incurred by the newly established subsidiaries
- Re-structured bank loans, now 98.8% of bank loans were denominated in RMB

# Gearing Level and EBIT

Gearing level



EBIT



The Group's profit before interests (net finance costs) and tax ("EBIT") increased by **38.1%** compared with the same period of last year

# Strategies and Outlooks

# Market Expectation - Global Demands Picking up

World Optical Cable Installations Forecast

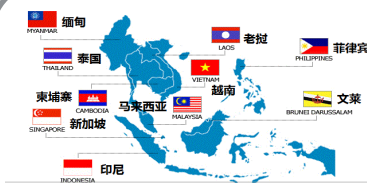
	2015	2016	2017
N. America	45.8	50.2	56.5
Europe	43.5	47.4	51.7
China (mainland + HK)	215.8	243.3	261.7
Non-China A-P	46.9	52.4	56.9
Rest of world	29.9	31.8	35.3
<b>WW Total</b>	<b>381.9</b>	<b>425.1</b>	<b>462.1</b>

In Million FKM



Deloitte estimates a **\$130 and \$150 billion** investment to support broadband

**Verizon** signed a 3-year agreement with Prysmian to purchase **17 million fkm** of optical cables preparing for 5G services



Southeast Asia 2011 – 2016:  
**CAGR of 20.6%**

**\$1.1 billion** to strengthen backbone network in **Thailand**

Palapa Ring project with total length of 35,000km will **connect Indonesia**



**€139million** to invest in broadband

Connect all South Africans **by 2020**



**€462 million** in FTTH

**€ 455 million** to deploy ultrafast broadband



EU telecom ministers have signed a declaration to make Europe a global leader in **5G development**

**€ 100 billion** Gigabit Germany initiative to create a high-performance broadband network in **Germany by 2025**

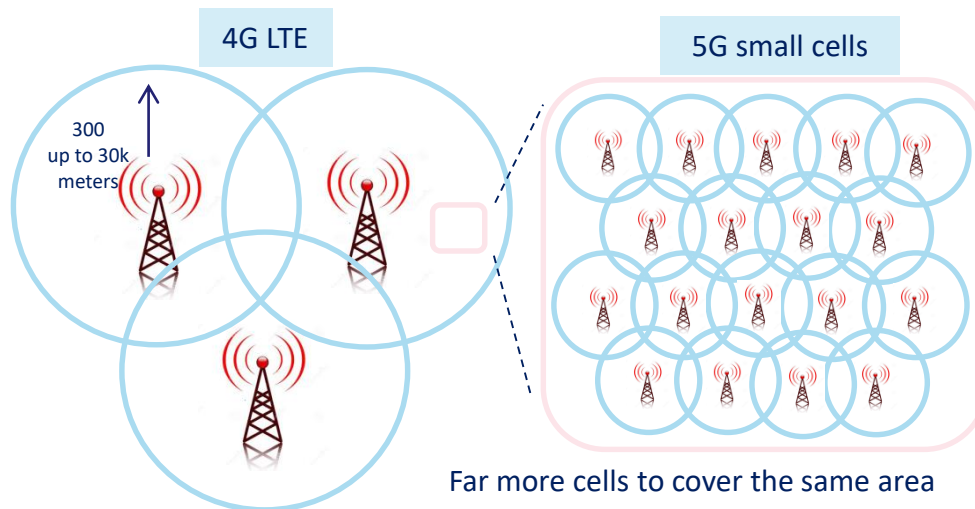
Source: CRU Report 2017.5

Note: CRU is relatively conservative in estimating Chinese market because factors such as national strategies were not fully incorporated

# Market Expectation – Domestic market remains strong in 2017

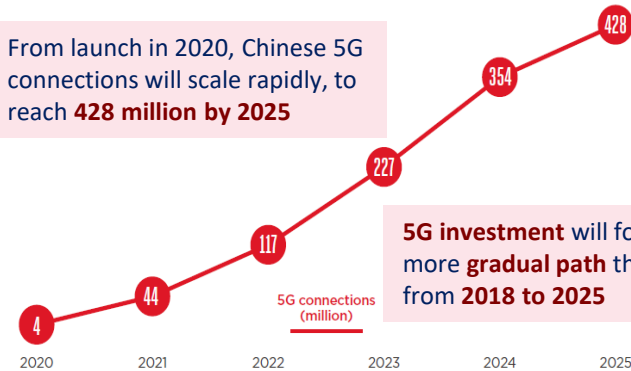
## 4G & FTTX: National Strategy

- RMB1.2 trillion in telecom infrastructure projects
- Target to build fibre network for **98%** of administrative villages
- **All-optical network** coverage in urban areas



## 5G Forecast by GSMA&CAICT

From launch in 2020, Chinese 5G connections will scale rapidly, to reach **428 million by 2025**



**5G investment** will follow a more **gradual path** than 4G from **2018 to 2025**



**2017 :** field tests in 5 cities  
**2018 :** scale tests  
**2019 :** pre-commercial usage  
**2020 :** commercial launch



**2017 :** field tests  
**2018 -19:** scale tests  
**2020 :** commercial launch



**2017 :** field tests in June  
**2018 :** scale tests in 5-6 cities  
**2019 :** larger scale tests  
**2020 :** commercial launch

# Strategies – Organic Growth

## YOFC Qianjiang S&T Park ( Phase 1) Began Operation in Mar 2017

### World's Largest Optical Fibre Preform Manufacturing & R&D Base

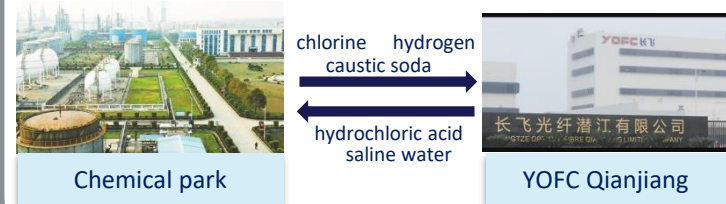


VAD 500 tons – self owned

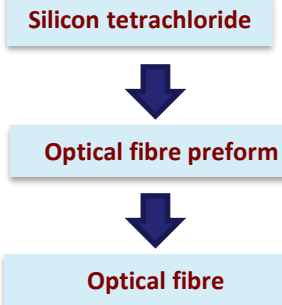
OVD 500 tons – JV with Shin-Etsu

10 million FKM optical fibre capacity

### Circular economy, lower costs

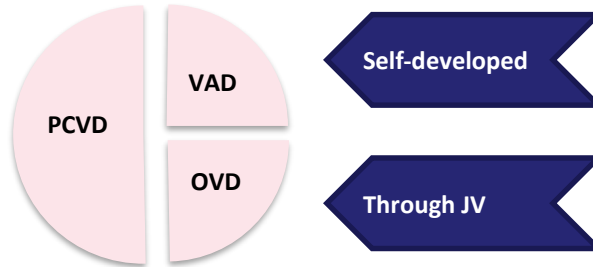


### Extended value chain, more efficient



# Strategies – Innovation and Smart Manufacturing

## Technology Innovation



The **only** company selected in the first batch of smart manufacturing demonstration projects in **Hubei** and in the **industry**



### Smart Manufacturing Projects

- Auto package line for optical fibre
- Automatic testing
- Automatic preform loading system
- Big data analysis and improvement
- Centralized cable compound supply project
- Automatic multi-layered warehouse



# Strategies – Internationalisation

## 25 overseas sales offices



- In Indonesia, YOFC reached full capacity and gained profits
- Optical cable JV in Indonesia (YOFC 70%) ground breaking ceremony was held in May 2017

Capacity: 2 million fkm      Total investment: USD14 million



- Established a company in **Thailand** to organize local sales
- **YOA Cable** began operation and reached full capacity
- Established **RiT Tech** (YOFC 75%) in Israel

In **5** years, overseas revenue is planned to reach **25% - 30%** of total revenue



# Strategies – Diversification



## Wuhan YOFC Cable

Revenue **tripled** after becoming a subsidiary

Became a supplier of China Mobile, China Unicom and China Tower

Only supplier of Huawei Dubai and earned the **Best Supply Collaboration Prize**



## iCONEC



Signed an official cooperation agreement with **Digital China**, which will be a national distributor of YOFC's iCONEC generic cabling system

YOFC Connectivity announced **Generation 4** cabling solutions and became a supplier for **Baidu's data centers**



Realized AOC products revenue growth in 1H2017

Tape out finished to reach mass production

# Strategies – Capital Management

## Shenzhen – Hong Kong Connect



恒生指數  
HANG SENG INDEXES

Liquidity and mkt cap  
improvement



Added to the **Heng Seng Stock  
Connect HK Index** on 16 Aug



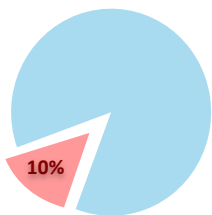
Scheduled to be  
**rebalanced on 4 Sept**

# Strategies – Capital Management

## A share Listing Plan



**Proposed listing place:**  
Shanghai Stock Exchange



**Shares to be issued:**  
Not exceeding 11.11% of  
existing total shares



**Proposed net  
proceeds:**  
~ RMB 2 billion

**Replenishment of  
working capital:**  
RMB300 million

**Payback loans:**  
RMB300 million

**Investment project:**  
RMB1.4 billion

Approved by the  
Board of Directors

Dec 2016  
Mar 2017

Approved by the  
General Meetings  
and Class Meetings

May 2017

Application materials  
submitted to CSRC

June 2017

Our application was  
accepted for further review  
and processing by CSRC

June 2017

PROGRESS



**Sponsor:**  
China International Capital  
Corporation Limited (CICC)

Note: the A share listing is subject to the approval from the relevant government departments or regulatory authorities

# Creating Value for Shareholders

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## Continue to be the leader

Global #1 in 2016

Secured again in 1H 2017

Keep position in 2H 2017

## Keep growth trend

Bound to follow the strong performance trend through 2017

2017 could be the best year in YOFC history

Creating even brighter future beyond

長飛光纖光纜股份有限公司

YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LIMITED COMPANY

**Industry Leader, global #1**



**Awaits you in the conference**



**YOFC 长飞**