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Nanfang Communication Holdings Limited
南方通信控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1617)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

For the six months ended 30 June 2020, the Group's operating results were as follows:

- Total revenue decreased by approximately 46.1% to approximately RMB200.8 million (six months ended 30 June 2019: approximately RMB372.8 million).
- Gross profit decreased by approximately 83.2% to approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million).
- Gross profit margin decreased by approximately 21.3% to approximately 9.6%.
- Loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), represented a decrease of approximately 110.5%.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020.

The board (the "**Board**") of directors (the "**Directors**") of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the "**Company**") is pleased to announce the following unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2020 (the "**reporting period**"), together with the comparative unaudited figures for the six months ended 30 June 2019, as follows. The unaudited condensed consolidated interim results have not been audited and reviewed by the auditors, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3, 4*	**200,823**	372,839
Cost of sales		**(181,470)**	(257,408)
Gross profit		**19,353**	115,431
Other income, gains, expenses and losses, net	*5*	**5,222**	6,714
Selling and distribution expenses		**(7,484)**	(8,263)
Administrative expenses		**(16,665)**	(17,188)
Research costs		**(13,195)**	(15,925)
Finance costs	*6*	**(2,330)**	(4,621)
Share of profit (loss) of an associate		**5,401**	(10,290)
Share of profit of a joint venture		**2,218**	50
(Loss) profit before tax	*8*	**(7,480)**	65,908
Income tax credit (expense)	*7*	**2,017**	(13,783)
(Loss) profit and total comprehensive (expense) income for the period		**(5,463)**	52,125
(Loss) earnings per share	*9*		
– Basic		**RMB(0.005)**	RMB0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	**At 30 June 2020** **RMB'000** **(Unaudited)**	At 31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**104,123**	107,995
Right-of-use assets		**29,287**	30,054
Interest in an associate		**107,091**	101,614
Interest in a joint venture		**84,594**	82,376
Prepayments for acquiring property, plant and equipment and prepaid expenses		**2,962**	2,173
Bank deposits with original maturity more than three months		**100,425**	98,428
Deferred tax assets		**7,238**	4,265
		435,720	426,905
CURRENT ASSETS			
Inventories		**42,710**	45,024
Trade and bills receivables	*11*	**491,648**	405,176
Prepayments, deposits and other receivables		**26,490**	29,975
Restricted bank deposits and balances	*12*	**69,668**	67,200
Bank deposits with original maturity more than three months		**–**	44,680
Bank deposits, bank balances and cash		**195,698**	318,697
		826,214	910,752
CURRENT LIABILITIES			
Trade payables	*13*	**159,571**	152,160
Bills payable	*14*	**121,408**	134,019
Other payables		**56,214**	68,975
Derivative financial instruments		**400**	–
Contract liabilities		**–**	388
Dividends payable	*10*	**39,200**	–
Lease liabilities		**836**	824
Bank borrowings	*15*	**60,000**	110,000
Tax liabilities		**28,413**	31,357
		466,042	497,723

	Notes	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
NET CURRENT ASSETS		**360,172**	413,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**795,892**	839,934
CAPITAL AND RESERVES			
Share capital	*16*	**997**	997
Reserves		**768,571**	813,234
TOTAL EQUITY		**769,568**	814,231
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,288**	9,125
Deferred income – government grants		**16,465**	15,585
Lease liabilities		**571**	993
		26,324	25,703
		795,892	839,934

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as appropriate.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

The Group's revenue represents amounts received and receivable from the sale of optical fibre cables and optical distribution network devices, net of discounts, customers' returns and sales related tax, that are recognised at a point in time.

All sales of the Group's optical fibre cables and optical distribution network devices are made to customers located in the PRC.

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables and optical distribution network devices to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and other companies according to the relevant sales agreements. Revenue is recognised when control of optical fibre cables and optical distribution network devices has been transferred, being when they have been shipped to the customers' specific locations based on the quantity of optical fibre cables and optical distribution network devices received by the customers. No provision for returns of optical fibre cables and optical distribution network devices are set out in the relevant sales agreements, unless they could be replaced if quality problems are found. A receivable is recognised by the Group when the goods are delivered to the customer's specific location and received by the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once the goods are received by the customers. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% to 90% payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in twelve months, in general, upon acceptance of goods with the remainder to be paid in the next six months. In addition, the Group granted credit periods of not more than one year to other customers with good repayment history. The Group does not obtain collateral from customers.

4. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company (also general manager of the Group), being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of optical fibre cables and optical distribution network devices.

As the Group is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network devices, the Directors consider that the Group has one reportable and operating segment. As such, no operating segment information is presented other than the entity-wide disclosures.

Geographical information

The Group's operation is principally in the PRC and all its non-current assets (other than financial assets and deferred tax assets) are situated in the PRC.

5. OTHER INCOME, GAINS, EXPENSES AND LOSSES, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**3,260**	4,679
Other interest income	**0**	1,650
Foreign exchange gains, net	**52**	113
Gain on sales of other materials	**1,544**	232
Impairment loss recognised in respect of trade receivables	**–**	(6)
Government grants recognised *(Note)*	**702**	3,086
Change in fair value of derivative financial instruments	**(400)**	(700)
Others	**64**	(2,340)
	5,222	6,714

Note: The government grants mainly included subsidies in relation to the listing of the Company's ordinary shares on the Main Board of the Stock Exchange, research costs and other expenses incurred in prior years.

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**2,305**	4,597
Interest on lease liabilities	**25**	24
	2,330	4,621

7. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**(793)**	(12,692)
– Deferred tax	**2,810**	(1,091)
Total income tax credited (recognised) in profit or loss	**2,017**	(13,783)

No provision for income taxes of the Company and its certain subsidiaries, Century Planet Limited ("**Century Planet**"), Nanfang Communication Group Limited ("**Nanfang Hong Kong**") and MacroSmart Investment Limited ("**MacroSmart**") in respect of the Cayman Islands, BVI, Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the period (six months ended 30 June 2019: (unaudited) Nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate applicable to Jiangsu Nanfang Communication Technology Company Limited ("**Nanfang Communication**"), a subsidiary of the Company, is recognised as a "**High and New Technology Enterprise**" and is entitled to a reduced EIT rate of 15% for the reporting period (six months ended 30 June 2019: (unaudited) 15%) pursuant to the relevant regulations. Besides, Jiangsu Yingke Communication Technology Company Limited ("**Yingke**"), a subsidiary of the Company, is also recognised as a "**High and New Technology Enterprise**" during the reporting period. Accordingly Yingke is also entitled to a reduced EIT rate of 15% for the reporting period (six months ended 30 June 2019: (unaudited) 25%).

8. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,828**	8,729
Lees: Depreciation capitalised in inventories	**(6,294)**	(7,128)
	1,534	1,601
Depreciation of right-of-use assets	**767**	656
Staff costs (including the Directors' remuneration):		
Salaries, wages and allowances	**14,614**	15,024
Retirement benefit scheme contributions	**1,182**	2,066
Total staff costs	**15,796**	17,090
Cost of inventories recognised as cost of sales	**181,470**	257,408

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share ((Loss) profit for the period attributable to owners of the Company)	**(5,463)**	52,125

	Six months ended 30 June	
	2020	2019
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,120,000**	1,120,000

No diluted (loss) earnings per share is presented as there is no potential ordinary shares outstanding for both periods.

10. DIVIDEND

During the current interim period, a final dividend of HK$0.03828 (equivalent to RMB0.035) per ordinary share in respect of year ended 31 December 2019 (six months ended 30 June 2019: (unaudited) HK$0.07098 (equivalent to RMB0.0625), an aggregate amount of HK$42.9 million (equivalent to RMB39.2 million) (six months ended 30 June 2019: (unaudited) HK$79.6 million (equivalent to RMB70.0 million) was declared to the shareholders of the Company.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: (unaudited) Nil).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**491,682**	391,067
Less: Allowance of credit losses	**(5,857)**	(5,857)
	485,825	385,210
Bills receivable *(Note)*	**5,823**	19,966
	491,648	405,176

Note: At the end of the reporting period, the Group's bills receivable was issued by banks and customers with maturity within six months.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on revenue recognition date:

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**434,317**	334,140
More than 6 months, but less than 1 year	**44,819**	44,800
More than 1 year	**6,689**	6,270
	485,825	385,210

According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% to 90% of payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in twelve months, in general, upon acceptance of goods with the remainder to be paid in the next six months. In addition, the Group granted credit periods of not more than one year to customers with good repayment history. The Group does not obtain collateral from customers.

12. RESTRICTED BANK DEPOSITS AND BALANCES

As at 31 December 2019 and 30 June 2020, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable and certain performance bonds.

13. TRADE PAYABLES

The average credit period on purchases of materials was within four months upon receipts of the materials and the relevant VAT invoices.

The following is an aged analysis of trade payables, presented based on the invoice date:

	At 30 June 2020 *RMB'000* **(Unaudited)**	At 31 December 2019 *RMB'000* (Audited)
Less than 6 months	**152,783**	145,295
More than 6 months, but less than 1 year	**4,100**	3,572
More than 1 year	**2,688**	3,293
	159,571	152,160

14. BILLS PAYABLE

As at 31 December 2019 and 30 June 2020, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's restricted bank deposits and balances.

15. BANK BORROWINGS

As at 31 December 2019 and 30 June 2020, the Group's bank borrowings are unsecured and are repayable within one year from the end of the reporting period. The repayments of these bank borrowings are guaranteed by group companies at nil consideration.

16. SHARE CAPITAL

	Number of shares *'000*	Share capital *HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2019 and 30 June 2020	8,000,000	8,000
Issued and fully paid:		
At 31 December 2019 and 30 June 2020	1,120,000	1,120

Presented in the condensed consolidated financial statements as	
	RMB'000
At 31 December 2019 and 30 June 2020	997

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB200.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB372.8 million), representing a decrease of approximately 46.1% as compared to the same period in 2019.

During the six months ended 30 June 2020, the gross profit of the Group was approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million), representing a decrease of approximately 83.2% as compared to the same period in 2019.

During the six months ended 30 June 2020, the Group recorded a loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), representing a decrease of approximately 110.5% as compared to the corresponding period in 2019.

During the six months ended 30 June 2020, the basic loss per share was approximately RMB0.005 (six months ended 30 June 2019: basic earnings per share approximately RMB0.05).

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the six months ended 30 June 2020, revenue of the Group amounted to approximately RMB200.8 million, representing a decrease of approximately 46.1% from approximately RMB372.8 million for the six months ended 30 June 2019. Following the outbreak of the Novel Coronavirus 2019 ("**COVID-19**") pandemic, during the first half year of 2020, the Group and the upstream and downstream industry chains encountered suspension of operation for a relatively long period. The Company's production capacity and order volume were significantly affected. Despite a slight increase in the sales volume during the reporting period, the unit selling price of optical fibre cables declined remarkably. As a result, the Company's revenue for the six months ended 30 June 2020 was impaired.

Cost of sales

For the six months ended 30 June 2020, cost of sales of the Group was approximately RMB181.5 million (six months ended 30 June 2019: approximately RMB257.4 million), representing a decrease of approximately 29.5% as compared to the same period in 2019. The decrease in cost of sales during the reporting period was mainly due to: (i) the sluggish production operations of the Group as a result of COVID-19 pandemic; and (ii) the reduced cost of optical fibre, which is the raw material for manufacturing optical fibre cables.

Gross profit and gross profit margin

For the six months ended 30 June 2020, the Group's gross profit was approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million), representing a decrease of approximately 83.2% as compared to the same period in 2019. During the reporting period, the Group's gross profit margin was approximately 9.6% as compared to a gross profit margin of approximately 31.0% for the six months ended 30 June 2019. While the Group encountered a reduction in revenue due to industry-wide suspension of business operation due to COVID-19 pandemic and the reduced unit selling price of optical fibre cables, various fixed costs of sales were incurred normally. This led to an increase in the unit fixed cost of the optical fibre cables.

Other income, gains, expenses and losses, net

A net revenue of approximately RMB6.7 million for the six months ended 30 June 2019 has been reduced to approximately RMB5.2 million for the same period in 2020.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses were approximately RMB7.5 million (six months ended 30 June 2019: approximately RMB8.3 million), representing a decrease of approximately 9.4% as compared to the same period in 2019. The decrease was in line with a decline in business scale and thus a decline in transportation costs.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses were approximately RMB16.7 million, comparable to that of approximately RMB17.2 million for the six months ended 30 June 2019.

Research costs

The Group's research costs were approximately RMB13.2 million for the six months ended 30 June 2020 (for the six months ended 30 June 2019: approximately RMB15.9 million), representing a decrease of approximately 17.1% as compared to the same period in 2019. The decrease was mainly due to a relatively long period of suspension encountered by the research and development staff of the Company as a result of the COVID-19 pandemic.

Finance costs

During the six months ended 30 June 2020, the Group's finance costs were approximately RMB2.3 million (six months ended 30 June 2019: approximately RMB4.6 million), representing a decrease of approximately 49.6% as compared to the same period in 2019. The decrease in finance costs was in line with the decrease in bank borrowings.

Share of profit (loss) of an associate

The Group recognised a share of profit of an associate of approximately RMB5.4 million for the six months ended 30 June 2020, as compared to a share of loss of an associate of approximately RMB10.3 million for the six months ended 30 June 2019. The change was mainly due to the continuous improvement in profitability.

Income tax credit (expense)

During the six months ended 30 June 2020, the Group recorded income tax credit of approximately RMB2.0 million, as compared to the income tax expense of approximately RMB13.8 million compared to the same period in 2019. The change was mainly due to the decrease in profit.

(Loss) profit and total comprehensive (expense) income attributable to owners of the Company

As a result of the above, for the six months ended 30 June 2020, the Company has recorded loss and total comprehensive expense attributable to owners of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), representing a decrease of approximately 110.5% as compared to the same period in 2019.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2020, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB365.8 million (as at 31 December 2019: approximately RMB529.0 million), representing a decrease of approximately 30.9% as compared to that as at 31 December 2019. As at 30 June 2020, the Group had restricted bank deposits and balances of approximately RMB69.7 million (as at 31 December 2019: approximately RMB67.2 million) that were pledged to banks for issuing bills payable and certain performance bonds.

Borrowings and charges on the Group's assets

As at 30 June 2020, the Group had bank loans of approximately RMB60.0 million (as at 31 December 2019: RMB110.0 million), which were unsecured. All bank loans will be repayable within one year.

Gearing ratio

As at 30 June 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 64.0% (as at 31 December 2019: 64.3%).

Currency risk

While the Group's operations were principally in the PRC during the reporting period and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company denominated in foreign currencies. The Company may use any contracts to hedge against its exposure to currency risk as appropriate, and the Directors manage its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, lease liabilities and bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets, mainly restricted bank balances and bank balances which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

Credit risk

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 is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss of trade, bills and other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information.

For bank deposits and balances, the management of the Group assessed that the Group's bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to either international or PRC credit-rating agencies, and expected credit loss ("**ECL**") is insignificant.

The Group has concentration of credit risk because approximately 96.5% (as at 31 December 2019: approximately 97.9%) of trade receivables as at 30 June 2020 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

Other than the above, the Group does not have significant concentration of credit risk.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

Capital commitments

As at 30 June 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.2 million (as at 31 December 2019: approximately RMB2.7 million).

Employees and remuneration policies

As at 30 June 2020, the Group had approximately 390 employees (as at 30 June 2019: approximately 430 employees). During the reporting period, the Group incurred staff costs of approximately RMB15.8 million. As required by applicable local laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees.

Remuneration packages are reviewed periodically with reference to the prevailing market employment practices and legislation. The Group has organised its staff to participate in training courses, seminars and expertise courses to enhance their professional knowledge and skills, and strengthen their understanding of market development and improve their management and business skills.

OUTLOOK

Subsequent to the outbreak of the COVID-19 pandemic in the first half year of 2020, it brought impacts and challenges towards the Company's operational development. The Company has proactively responded to and committed to alleviating the adverse impact of the pandemic. Production has been resumed smoothly and delivery protocol of customers was accomplished.

During the reporting period, the Group's revenue and net profit decreased significantly compared with the same period in 2019, primarily due to: (1) following the unexpected pandemic, the Group and the upstream and downstream industrial chain suffered a long period of suspension in the first half year of 2020, which significantly affected the Company's production capacity utilization and order volume. (2) as a result of the shift in the supply-demand imbalance of optical fibre and optical fibre cables from a shortage in the prior years to a surplus in 2019, the unit selling price of optical fibre and optical fibre cable products decreased by more than 40% in 2019. During the reporting period, the Group's unit selling prices of optical fibre cable products were maintained at the previous level, causing a decline in revenue and profits for the six months ended 30 June 2020.

Currently, the development of 5G is accelerating as the construction progress of base stations is faster than expected. According to the latest statistics of the Ministry of Industry and Information Technology, it is indicated that the total number of 5G base stations has exceeded 400,000 by the end of June 2020. Recently, telecommunication operators have successively upgraded their annual targets for 5G station construction, of which, China Mobile has revised its target for new 5G base stations construction in the current year from 250,000 to 300,000 stations. By the end of the year, it will provide commercial services in all cities at prefecture level and above, and will promote the commercial use of the SA core network in the current year. China Unicom also stated that their co-construction and sharing with China Telecom have been accelerating. Currently, China Unicom has already serviced 260,000 5G base stations and will reach 370,000 by the end of this year. Being the physical connection channel between base stations, optical fibre and optical fibre cables are on keen demands, and becoming the deployment key in the whole 5G network pre-construction. Although the pandemic in the first half of the year has affected the domestic market and network construction, it has created a strong new demand for information technology among all sectors of the society. The PRC government has actively pursued the construction of new infrastructure, further integrated information and telecommunications technology with the people's livelihood, and further enhanced economic and social digitalization.

The supply-demand pattern of optical fibre and optical fibre cables did not improve in 2019, and the market competition was still intense. During the central procurement of ordinary optical fibre cables products by China Mobile in July 2020, the average price of optical fibre cables has further dropped by about 30% and industry profit margins will remain under significant pressure in a short term.

As the current development situation of the industry is becoming more complex and volatile and the trend of industrial integration is becoming more remarkable, it institutes a higher demand on the Group's operational development. In order to cope with the challenges, the Group will focus on improving the production technology standards of optical fibre and optical fibre cable, enhancing production efficiency, adjusting business units and strengthening cost control capability. Meanwhile, we will further optimise the sales network, explore new customers in the new fields among the domestic market, explore overseas market expansion, and establish a stable overseas sales network. Focusing on the telecommunication industry especially 5G network product demand, the Group will diligently participate in the new hardware manufacturing industry which caters for the need of 5G network construction, in order to grasp the expansion potential of the telecommunication industry and enhance our competitiveness and market share.

Meanwhile, the continuing global spread of COVID-19 pandemic has affected the global economy and posed uncertainties. The Group will stay alert on the development and situation of COVID-19, continue to assess its impact on the Group and take necessary actions to mitigate the business risks.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

On 12 December 2016, the Company issued 280,000,000 shares at an offer price of HK$1.02 per share for the purpose of the global offering. Upon completion of the global offering, the Company raised gross proceeds of approximately HK$285.6 million. The proceeds, after deducting payment for remaining listing expenses, are intended to be utilised in accordance with the proposed application set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 30 November 2016 (the "**Prospectus**").

As at 30 June 2020, approximately HK$182.1 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	Actual utilised as at 30 June 2020	Unutilised as at 30 June 2020	Expected timeline for full utilisation of the unutilised proceeds
	%	*HK$'000,000*	*HK$'000,000*	*HK$'000,000*	
For constructing the phase II expansion plan of our Jin Tan Factory to expand our production capacity and increase our production efficiency	48.9	121.3	55.0	66.3	In respect of acquisition of land for the phase II of Jin Tan Factory: By 30 June 2021 In respect of construction of the office and production facilities and installation of production facilities and equipment: By 30 September 2022
For upstream development or acquisition of the optical fibre cable production value chain	28.5	70.8	70.8	–	–
For research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment	10.1	25.0	25.0	–	–
For repaying parts of the bank loans drawn down from a financial institution	6.1	15.1	15.1	–	–
For additional working capital and other general corporate purpose in order to improve the liquidity and gearing ratio of our Group	6.5	16.2	16.2	–	–
Total	**100****	**248.4**	**182.1**	**66.3**	**–**

** The aggregate of the percentage figures in the table above may not add up to the relevant "Total" percentage figures shown due to rounding of the percentage figures to one decimal place.

Please also refer to the announcement of the Company dated 11 August 2020 regarding the expected timeline for the utilisation of the unutilised proceeds.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the six months ended 30 June 2020 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2020 and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rule and the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Chi Keung, Mr. Chan Kai Wing, and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee. In each Audit Committee meeting, the Audit Committee has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

The Audit Committee has, together with the management of the Company, reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020 and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2020 and up to the date of this announcement, the Group had no material acquisition or disposal of its subsidiaries and associated companies.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group have occurred since the end of the six months ended 30 June 2020 and up to the date of this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.com.hk) and the Company (www.jsnfgroup.com). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to the Company's shareholders on or before 29 September 2020 and will be available on the websites of the Stock Exchange and the Company.

For and behalf of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive director of the Company is Mr. Yu Jinlai (chairman); and the independent non-executive directors of the Company are Mr. Wu Wing Kuen, Mr. Lam Chi Keung and Mr. Chan Kai Wing.