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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

For the year ended 31 December 2019, the Group's operating results were as follows:

- Total revenue decreased to approximately RMB534.3 million (2018: approximately RMB900.3 million)

- Gross profit decreased by approximately 42.8% to approximately RMB129.5 million (2018: approximately RMB226.7 million)

- Gross profit margin decreased by approximately 1% to approximately 24.2% (2018: approximately 25.2%)

- Profit and total comprehensive income for the year attributable to owners of the Company decreased by approximately 76.1% to approximately RMB33.9 million (2018: approximately RMB141.4 million)

- The Board recommended the payment of a final dividend of RMB0.035 (2018: approximately RMB0.0625) per ordinary share

The board of directors (the "**Board**") of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the "**Company**") is pleased to announce the following audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenue	*3, 4*	**534,327**	900,300
Cost of sales		**(404,781)**	(673,627)
Gross profit		**129,546**	226,673
Other income, gains, expenses and losses, net	*5*	**20,376**	12,328
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		**(1,029)**	(1,269)
Selling and distribution expenses		**(18,670)**	(16,927)
Administrative expenses		**(41,342)**	(37,276)
Research costs		**(30,236)**	(45,709)
Finance costs	*6*	**(10,421)**	(6,043)
Share of (loss) profit of an associate		**(11,014)**	35,444
Share of profit of a joint venture		**4,554**	1,322
Profit before tax	*8*	**41,764**	168,543
Income tax expense	*7*	**(7,908)**	(27,111)
Profit and total comprehensive income for the year		**33,856**	141,432
Earnings per share	*9*		
– Basic		**RMB0.03**	RMB0.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		At 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**107,995**	110,072
Right-of-use assets		**30,054**	–
Prepaid lease payments		**–**	24,194
Interest in an associate		**101,614**	116,867
Interest in a joint venture		**82,376**	77,822
Prepayments for acquiring property, plant and equipment and prepaid expenses		**2,173**	8,164
Bank deposits with original maturity more than three months	*11*	**98,428**	3,035
Deferred tax assets		**4,265**	5,336
		426,905	345,490
CURRENT ASSETS			
Inventories		**45,024**	50,277
Trade and bills receivables	*10*	**405,176**	539,319
Prepaid lease payments		**–**	519
Prepayments, deposits and other receivables		**29,975**	82,869
Restricted bank deposits and balances	*11*	**67,200**	73,618
Bank deposits with original maturity more than three months	*11*	**44,680**	–
Bank deposits, bank balances and cash	*11*	**318,697**	403,298
		910,752	1,149,900
CURRENT LIABILITIES			
Trade payables	*12*	**152,160**	186,588
Bills payable	*13*	**134,019**	114,113
Other payables		**68,975**	89,747
Contract liabilities		**388**	19
Lease liabilities		**824**	–
Bank borrowings	*14*	**110,000**	200,000
Tax liabilities		**31,357**	35,877
		497,723	626,344

		At 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
NET CURRENT ASSETS		**413,029**	523,556
TOTAL ASSETS LESS CURRENT LIABILITIES		**839,934**	869,046
CAPITAL AND RESERVES			
Share capital	*15*	**997**	997
Reserves		**813,234**	849,378
TOTAL EQUITY		**814,231**	850,375
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,125**	7,587
Deferred income – government grants		**15,585**	11,084
Lease liabilities		**993**	–
		25,703	18,671
		839,934	869,046

Notes:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 10 May 2016. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is 1 Cencun Road, Luoyang Town, Wujin District, Changzhou City, Jiangsu Province, The People's Republic of China (the "**PRC**"). The Company is an investment holding company and, through its operating subsidiaries, is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network devices.

The Company's immediate and ultimate holding company is Pacific Mind Development Limited ("**Pacific Mind**"), a company incorporated in the British Virgin Islands ("**BVI**").

The consolidated financial statements of the Group are presented in Renminbi ("**RMB**"). In the opinion of the directors of the Company (the "**Directors**"), the functional currency of companies comprising the Group is RMB.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee ("**IFRIC**") for the first time in the current year:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRS	*Annual Improvements to HKFRSs 2015-2017 Cycle*

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("**IAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review; and

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

		Right-of-use assets
	Note	*RMB'000*
Reclassified from prepaid lease payments	*(a)*	24,713
By class:		
Leasehold lands		24,713

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB519,000 and RMB24,194,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2018**	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
		RMB'000	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Prepaid lease payments	*(a)*	24,194	(24,194)	–
Right-of-use assets	*(a)*	–	24,713	24,713
CURRENT ASSETS				
Prepaid lease payments	*(a)*	519	(519)	–

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[5]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

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

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs menioned below that may affect the presentation and disclosures in the consolidated financial statements, the Directors anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance of the Group but may affect the presentation and disclosures in the 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 as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Optical fibre cables	**502,594**	900,300
Optical distribution network devices	**31,733**	–
	534,327	900,300

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% – 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 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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**9,195**	4,956
Other interest income	**3,370**	–
Foreign exchange gain, net	**974**	1,677
Sale of electricity and gain on sales of other materials	**1,328**	2,163
Government grants recognised *(Note)*	**5,523**	3,399
Gain on disposals of property, plant and equipment, net	**–**	134
Write-off of property, plant and equipment	**(53)**	–
Others	**39**	(1)
	20,376	12,328

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 of Hong Kong Limited (the "**Stock Exchange**"), research costs and other expenses incurred in prior years.

6. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank borrowings	**10,366**	6,043
Interest on lease liabilities	**55**	–
	10,421	6,043

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**5,299**	14,181
– Deferred tax	**2,609**	12,930
Total income tax recognised in profit or loss	**7,908**	27,111

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 year (2018: 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 year (2018: 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 year. Accordingly Yingke is also entitled to a reduced EIT rate of 15% for the year (2018: 25%).

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**15,702**	13,355
Less: Depreciation capitalised in inventories	**(12,806)**	(11,524)
	2,896	1,831
Depreciation of right-of-use assets	**1,198**	–
Release of prepaid lease payments	**–**	527
Auditor's remuneration	**1,400**	1,300
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**36,639**	38,147
Retirement benefit scheme contributions	**4,646**	4,044
Total staff costs	**41,285**	42,191
Cost of inventories recognised as cost of sales	**404,781**	673,627

9. EARNINGS PER SHARE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**33,856**	141,432

	Year ended 31 December	
	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,120,000**	1,120,000

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

10. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**391,067**	537,513
Less: Allowance of credit losses	**(5,857)**	(6,055)
	385,210	531,458
Bills receivable *(Note)*	**19,966**	7,861
	405,176	539,319

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 ageing analysis of trade receivables, net of allowance for credit losses, presented based on revenue recognition date:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Less than 6 months	**334,140**	456,249
More than 6 months, but less than 1 year	**44,800**	67,194
More than 1 year	**6,270**	8,015
	385,210	531,458

For the year ended 31 December 2019, 98.0% (2018: 81.9%) of the Group's sales of optical fibre cables, optical distribution network devices and other materials were made to the Major PRC Telecommunications Network Operators and the remainder was made to other third parties. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 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 customers with good repayment history. The Group does not obtain collateral from customers.

11. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS, RESTRICTED BANK DEPOSITS AND BALANCES, BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 4.2% per annum (2018: from 0.3% to 1.4% per annum) at the end of the reporting period.

As at 31 December 2018 and 2019, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable and certain performance bonds.

As at 31 December 2019, included in the Group's bank deposits with original maturity more than three months are bank deposits amounting to RMB44,680,000 (2018: Nil), which are due for withdrawal within twelve months at the end of the reporting period and bank deposits amounting to RMB98,428,000 (2018: RMB3,035,000) which are due for withdrawal in January 2022 (2018: before December 2020).

12. 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 ageing analysis of trade payables, presented based on the invoice date:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
Less than 6 months	**145,295**	183,374
More than 6 months, but less than 1 year	**3,572**	2,165
More than 1 year	**3,293**	1,049
	152,160	186,588

13. BILLS PAYABLE

At the end of the reporting period, 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.

14. BANK BORROWINGS

As at 31 December 2019, the Group's bank borrowings are unsecured, bear fixed interest rate at approximately 4.4% per annum (2018: fixed interest rate of approximately 4.4% per annum) 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.

15. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	*HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2018 and 2019	8,000,000	8,000
Issued and fully paid:		
At 31 December 2018 and 2019	1,120,000	1,120

Presented in the consolidated financial statements as	
	RMB'000
At 31 December 2018 and 2019	997

16. DIVIDENDS

The Board recommended the payment of a final dividend of RMB0.035 (2018: RMB0.0625) per ordinary share in respect of the year ended 31 December 2019, in an aggregate amount of RMB39,200,000 (2018: RMB70,000,000) has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded a decrease of revenue by 40.7% to approximately RMB534.3 million for the year ended 31 December 2019 (year ended 31 December 2018: approximately RMB900.3 million).

During the year ended 31 December 2019, the gross profit of the Group was approximately RMB129.5 million (year ended 31 December 2018: approximately RMB226.7 million), experienced a reduction of approximately 42.8%.

During the year ended 31 December 2019, the Company reported a decline in profit and total comprehensive income for the period attributable to owners of the Company by approximately 76.1% to approximately RMB33.9 million (year ended 31 December 2018: approximately RMB141.4 million).

During the year ended 31 December 2019, the Company's basic earning per share was approximately RMB0.03 (year ended 31 December 2018: approximately RMB0.13).

MAJOR BUSINESS ARRANGEMENT

A. ACQUISITION OF A SUBSIDIARY AND ASSIGNMENT OF SHAREHOLDER’S LOAN AND SUBSEQUENT TERMINATION

On 26 June 2019, the Company and Gold Image Limited (“**Gold Image**”) entered into a sales and purchase agreement (the “**SP Agreement**”), pursuant to which Gold Image has conditionally agreed to sell its entire issued share capital of Pacific Smart Development Limited (the “**PS Shares**”) and to assign a shareholder’s loan due to the Company, and the Company has conditionally agreed to acquire the PS Shares and to accept the assignment of the shareholder’s loan at a consideration of US$14,715,001.

As one or more of the applicable percentage ratios (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) in respect of the acquisition of PS Shares and the assignment of the Shareholder’s loan exceed(s) 5% but is/are less than 25%, it constituted a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

On 6 September 2019, due to the fact that some conditions in the SP Agreement cannot be fully satisfied for completion of the acquisition, the Company and Gold Image entered into a termination agreement, pursuant to which, the Company and Gold Image have agreed to terminate the SP Agreement and release each other (i) from all obligations, duties, responsibilities, claims and liabilities whatsoever of whatever nature (whether past, present or future) owed to any of them arising out of or in connection with the SP Agreement; and (ii) from the performance by the Company and Gold Image of any further obligations towards each other (if any) under the SP Agreement. The Directors confirm that no payment of any consideration was made pursuant to the SP Agreement. The Directors consider that the entering into the termination agreement has no material adverse impact on the existing operation and financial position of the Group.

For details of the acquisition of the PS Shares and the consequent termination, please refer to the Company's announcements dated 26 June 2019 and 6 September 2019.

B. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO ANNOUNCEMENT REQUIREMENT

During the year, the Group has the following continuing connected transactions under Chapter 14A of the Listing Rules ("the **Disclosed Continued Connected Transactions**").

i. Purchases of optical fibre preforms and raw materials from Jiangsu Hengtong Light Guide New Materials Company Limited* 江蘇亨通光導新材料有限公司 ("**Hengtong Light Guide**") by Jiangsu Yingke Optical Material Technology Company Limited* 江蘇盈科光導科技有限公司 ("**Yingke Optical Materia**l") under framework procurement agreement (details of the framework procurement agreement are set out in the announcement of the Company dated 4 April 2018)

ii. Sales of optical fibre preforms to Jiangsu Nanfang Optic Electric Technology Company Limited* 江蘇南方光纖科技有限公司 ("**Nanfang Optic**") from Yingke Optical Material under framework supply agreement (details of the framework supply agreement are set out in the announcement of the Company dated 4 April 2018)

iii. Purchases of raw materials from Jiangsu Hengtong Optic-Electric Company Limited* 江蘇亨通光電股份有限公司 ("**Jiangsu Hengtong**") and its fellow subsidiaries by the Group under Jiangsu Hengtong framework procurement and supply agreement (details of the Jiangsu Hengtong framework procurement and supply agreement are set out in the announcement of the Company dated 28 September 2018)

iv. Rental expenses in respect of leasing factory premises from Hengtong Light Guide by Yingke Optical Material under lease agreement (details of the lease agreement are set out in the announcement of the Company dated 4 April 2018)

v. Purchase of optical fibres from Nanfang Optic as raw materials for the production of the optical fibre cables during the ordinary course of the production of the Group under the optical fibre supply agreement with Nanfang Optic (details of the optical fibre supply agreement are set out in the announcement of the Company dated 25 October 2017)

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

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 year ended 31 December 2019, revenue of the Group amounted to approximately RMB534.3 million, representing decrease of 40.7% from approximately RMB900.3 million for the year ended 31 December 2018. During the reporting period, the Major PRC Telecommunications Network Operators reduced their network construction expenditures and drove the procurement down. The awarded tendering prices decreased significantly and led to reduced business revenue.

Cost of Sales

For the year ended 31 December 2019, cost of sales of the Group was approximately RMB404.8 million, representing a decline of approximately 39.9% from approximately RMB673.6 million for the year ended 31 December 2018. During the reporting period, the decline was due to (i) the Major PRC Telecommunications Network Operators having reduced the procurement and thus leading to a decline in operating scale; and (ii) the decrease in price of raw material, optical fibre.

Gross profit and margin

Gross profit decreased by approximately 42.8% to approximately RMB129.5 million for the year ended 31 December 2019 from approximately RMB226.7 million for the same period in 2018. During the period, the Group's gross profit margin was approximately 24.2% as compared to a gross profit margin of approximately 25.2% for the year ended 31 December 2018. The slight drop in gross profit margin was mainly attributable to the Major PRC Telecommunications Network Operators having reduced the procurement and thus leading to a decline in operating scale but with unit fixed cost being pushed up.

Other income, gains, expenses and losses, net

A net gain of approximately RMB12.3 million for the year ended 31 December 2018 has been increased to a net gain of approximately RMB20.4 million for the same period in 2019. The increase in net gain during the year was mainly attributable to (i) the increase in interest income to approximately RMB12.6 million (year ended 31 December 2018: approximately RMB5.0 million) and (ii) the increase of government grant recognized to approximately RMB5.5 million (year ended 31 December 2018: approximately RMB3.4 million).

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 10.3% to approximately RMB18.7 million for the year ended 31 December 2019 from approximately RMB16.9 million for the same period in 2018. The administrative fee increased because the Group participated actively in submitting tenders to the Major PRC Telecommunication Network Operators during the reporting period and thus the bidding costs inflated.

Administrative expenses

The Group's administrative expenses increased by approximately 10.9% to approximately RMB41.3 million for the year ended 31 December 2019 from approximately RMB37.3 million for the year ended 31 December 2018. Following the Listing in December 2016, the Group has employed more efforts to manoeuvre the compliance requirement for internal control and governance. The administrative expenses increased in line with the Group's operations.

Research costs

The Group's research costs decreased by approximately 33.9% to approximately RMB30.2 million for the year ended 31 December 2019 from approximately RMB45.7 million for the year ended 31 December 2018. The decrease was mainly attributable to the completion of the 5G related projects during the year.

Finance costs

During the year ended 31 December 2019, the Group's finance costs increased by approximately 72.4% to approximately RMB10.4 million from approximately RMB6.0 million for the same period in 2018. The increase was in line with the increase in bank borrowings during the year.

Share of (loss) profit of an associate

During the year ended 31 December 2019, the Group recorded share of loss of an associate of approximately RMB11.0 million while it recognized share of profit of approximately RMB35.4 million for the same period of 2018. The associate is engaged in the manufacturing and trading of optical fibre. Affected by the entire industry, the supply-demand imbalance of optical fibre and optic fibre cable led to selling price adjustment of optical fibre products. This has deteriorated its profitability.

Income tax expense

The Group's income tax expense decreased by approximately 70.8% to approximately RMB7.9 million for the year ended 31 December 2019 from approximately RMB27.1 million for the year ended 31 December 2018. The decrease was in line with the decrease in the Group's profits.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, the Company has reported a decrease in profit and total comprehensive income attributable to owners of approximately 76.1% to approximately RMB33.9 million for the year ended 31 December 2019 from approximately RMB141.4 million for the same period in 2018.

Liquidity, financial and capital resources

Cash position

As at 31 December 2019, 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 RMB529.0 million (2018: approximately RMB480.0 million), representing an increase of approximately 10.2% as compared to that as at 31 December 2018. As at 31 December 2019, the Group had restricted bank deposits and balances of approximately RMB67.2 million (2018: approximately RMB73.6 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2019, the Group had bank loans of approximately RMB110.0 million (2018: approximately RMB200.0 million), which were unsecured. All bank loans will be repayable within one year.

Currency risk

While the Group's operations were principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, loan to an independent third party, 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, loan to Pacific Smart Development Limited, 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

As at 31 December 2019 and 31 December 2018, 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 ECL is insignificant.

The Group has concentration of credit risk because approximately 97.9% (2018: approximately 86.0%) of trade receivables as at 31 December 2019 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 31 December 2019, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB2.7 million (2018: approximately RMB2.9 million).

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings and net proceeds from the global offering in which the Company's ordinary shares of HK$0.001 each were issued at a price of HK$1.02 each on 12 December 2016 (the "**Global Offering**"). Save as disclosed in the prospectus of the Company dated 30 November 2016 (the "**Prospectus**") and in this announcement, the Group did not have any future plans for material investments as at the date of this announcement.

Employees, remuneration policies and Share Option Scheme

As at 31 December 2019, the Group had approximately 420 employees (2018: approximately 440). For the year ended 31 December 2019, the Group incurred staff costs of approximately RMB41.3 million (2018: approximately RMB42.2 million). As required by applicable PRC 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 then prevailing market employment practices and legislation.

No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2018 and 2019.

OUTLOOK

The Group's revenue and net profit recorded a remarkable decline in 2019 as compared to 2018. The attributable reasons are: (1) While the large-scale construction of 5G networks has not yet officially commenced in 2019, the Major PRC Telecommunications Network Operators have adjusted their network construction expenditures. The length of newly constructed optical fibre cable across the country has decreased by 1.44 million km, approximately 25%, to 4.34 million km in 2019. This resulted in supply-demand imbalance of optical fibre and optic fibre cable. The tendering price of optical fibre and optic fibre cable was thus significantly lowered compared to 2018. The deteriorating operating environment in the market led to reduced business revenue. (2) As the production capacity of upstream optical fibre preforms was released, the shortage of optical fibre was resolved, and thus the production capacity of optical fibre cables soared. The keen competition drove the gross profit margin down. (3) The Group's has recorded the share of significant loss of an associate which is principally engaged in the manufacturing and sales of optical fibre, as the purchase price adjustment of its major raw materials, optical fibre preforms, lagged behind the selling price adjustment of finished goods, optical fibre products.

On 4th March 2020, the Standing Committee of the Political Bureau of the Communist Party of China held a meeting and contended the acceleration of the construction of new infrastructure such as 5G networks and data centres. The 5G network construction, as the leading pillar of the "*New Infrastructure*"（新基建）, is one of the most feasible measures to counter economic downturn due to novel coronavirus epidemic, expand domestic demand and stimulate growth. The PRC government hopes to cultivate an evolution for economic development by promoting the construction of the 5G. In the long term, the new information and communication infrastructure led by 5G will not only enhance information consumption, but also provide a robust support for the transformation and upgrading of the social economy, driving the transformation of innovation from consumer internet to the industrial internet, and promoting the digital transformation of social governance and the high-quality development of the economy. Subsequently, on 24 March 2020, the Ministry of Industry and Information Technology of the PRC published the *Notice on Accelerating the Development of 5G* (《關於推動5G加快發展的通知》), which clearly put forward eighteen measures in five aspects, namely accelerating the construction and deployment of 5G networks, enriching the application of 5G technologies, intensifying the research and development of 5G technologies, formulating 5G security system, and strengthening the organisation and implementation. These measures will dedicate to promote network construction, application of 5G network, technology development and security.

Being the core developer of the current industrial development of 5G, the Major PRC Telecommunications Network Operators are accelerating the central procurement of 5G network equipment. Firstly, the original network construction plan was once postponed due to the epidemic and the operators are catching up the progress when the epidemic is alleviated. Secondly, the direct catalytic effect of "*New Infrastructure*" has brought forward the schedules of the entire industry. By the end of 2019, approximately 130,000 5G base stations have been built in China. It is planned that more than 600,000 new 5G base stations will be built by the end of 2020. We anticipate the number of 5G base stations will be 1.5-1.8 times the number of 4G base stations, and the total number of base stations construction will be about 6.5 million. While the construction of 5G base stations will boost in the next three years, the operators will incur a record high in its capital expenditure.

The China Institute of Information and Communication Technology predicts that the cumulative investment in 5G network construction will reach approximately RMB1.2 trillion by 2025. The 5G network construction will also drive the investment in upstream and downstream along the industrial chain as well as various industries. It is expected that by 2025, the cumulative investment will be more than RMB3.5 trillion. As a result, the demand for optical fibre and optical fibre cable will increase considerably, and the price of optical fibre and optical fibre cable will rebound from the current low. With the support of national policies, the development of 5G technology will be escalating, and the demand for optical fibre and optical fibre cable is expected to recover in 2020.

The loss of the Group's associate engaged in optical fibre industry is expected to be substantially reduced thanks to the price adjustment of its major raw materials, optical fibre preform, has been put in place.

Since the outbreak of the Coronavirus Disease 2019 ("**COVID-19**") epidemic in January 2020 in the PRC, the contagion of COVID-19 has spread worldwide. The pandemic caused by the COVID-19 has certain impacts on the business operation and overall economy in different regions and industries in the world. The Group has gradually resumed operations and production since March 2020 and we consider that the impact of COVID-19 on the Group's operations and future prospects would depend on the duration of the epidemic, the implementation of regulatory policies and relevant protective measures that might affect the business environment that the Group is operating at. With the aspiration of the 5G network construction as elaborated above, the Group will stay alert on the development and situation of the COVID-19, continue to assess its impacts on the Group and take necessary actions to mitigate its business risk. In order to cope with the challenges, the Group will diligently participate in the new hardware manufacturing industry catering for the need of 5G network construction in 2020. The Group will explore overseas markets expansion as appropriate and enhance our competitiveness and market share, with a hope for striving for satisfactory returns for our shareholders.

USE OF PROCEEDS FROM THE GLOBAL 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.

As at 31 December 2019, approximately HK$179.8 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 31 December 2019	Unutilised as at 31 December 2019
	%	*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	52.7	68.6
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**	**179.8**	**68.6**

** 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.

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 during the year ended 31 December 2019 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**AGM**") will be held on 23 June 2020 (Tuesday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

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 to 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 during the year ended 31 December 2019 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 year ended 31 December 2019 and up to the date of this announcement.

AUDIT COMMITTEE

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.

The Audit Committee had, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the year ended 31 December 2019 and this results announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate thereof.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Ms. Yu Rumin, Mr. Chan Kai Wing and Mr. Wu Wing Kuen. Mr. Wu Wing Kuen is the chairman of the Remuneration Committee. The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management of the Group and other related matters.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely, Mr. Yu Jinlai, Mr. Lam Chi Keung and Mr. Chan Kai Wing. Mr. Yu is the chairman of the Nomination Committee. The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS AND DIVIDEND PAYMENT

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from 18 June 2020 (Thursday) to 23 June 2020 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 17 June 2020 (Wednesday).

For determining the entitlement to the final dividend (if approved at the forthcoming AGM), the register of members of the Company will be closed from 2 July 2020 (Thursday) to 6 July 2020 (Monday), both days inclusive. The record date will be 6 July 2020 (Monday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 30 June 2020 (Tuesday). During the above closure periods, no transfer of shares will be registered. The proposed final dividend will be paid on 7 August 2020 (Friday) subject to the approval at the AGM.

In order to qualify for attending and voting at the AGM, and qualifying for the final dividend (if approved at the forthcoming AGM), all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019 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.

IMPORTANT EVENTS AFTER REPORTING PERIOD

Since the outbreak of the Coronavirus Disease 2019 ("**COVID-19**") epidemic in January 2020 in the PRC, the contagion of COVID-19 has spread worldwide. Different countries' authorities have taken national prevention and control measures against the disease. The pandemic caused by the COVID-19 has certain impacts on the business operation and overall economy in different regions and industries in the world. The Group has gradually resumed operations/production since March 2020 while the Directors consider that the impact of COVID-19 on the Group's operations and future prospects would depend on the duration of the epidemic, the implementation of regulatory policies and relevant protective measures that might affect the business environment that the Group is operating at. The Group will stay alert on the development and situation of the COVID-19, continues to assess its impacts on the financial position and operating results of the Group and take necessary actions to mitigate its business risk. Up to the date of this announcement, the aforesaid assessment is still in progress.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the website of each of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.jsnfgroup.com). The Company's 2019 annual report will be despatched to the Company's shareholders on or before 29 April 2020 (Wednesday) and will be available at the website of each of the Stock Exchange and the Company.

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

Hong Kong, 31 March 2020

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

* *For identification purpose only*