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 2018

HIGHLIGHTS

- Total revenue remained stable at approximately RMB900.3 million (2017: approximately RMB901.3 million).
- Gross profit increased by approximately 8.6% to RMB226.7 million (2017: approximately RMB208.7 million).
- Gross profit margin increased by approximately 2.0% to approximately 25.2% (2017: approximately 23.2%).
- Profit and total comprehensive income for the year attributable to owners of the Company increased by approximately 8.5% to RMB141.4 million (2017: approximately RMB130.3 million).
- The Board recommended the payment of a final dividend of RMB0.0625 (2017: approximately RMB0.06) 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 2018 together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue	*3,4*	**900,300**	901,328
Cost of sales		**(673,627)**	(692,644)
Gross profit		**226,673**	208,684
Other income, gains, expenses and losses, net	*5*	**12,328**	1,425
Impairment losses, net of reversal		**(1,269)**	1,387
Selling and distribution expenses		**(16,927)**	(18,539)
Administrative expenses		**(37,276)**	(33,603)
Research costs		**(45,709)**	(37,977)
Finance costs	*6*	**(6,043)**	(4,351)
Share of profit of an associate		**35,444**	30,563
Share of profit of a joint venture		**1,322**	–
Profit before tax	*8*	**168,543**	147,589
Income tax expense	*7*	**(27,111)**	(17,257)
Profit and total comprehensive income for the year		**141,432**	130,332
Earnings per share	*9*		
– Basic		**RMB0.13**	RMB0.12

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**110,072**	97,084
Prepaid lease payments		**24,194**	24,721
Interest in an associate		**116,867**	84,189
Interest in a joint venture		**77,822**	510
Prepayments for property, plant and equipment and prepaid lease payments		**8,164**	1,229
Bank deposits with original maturity of more than three months	*11*	**3,035**	–
Deferred tax assets		**5,336**	10,679
		345,490	218,412
CURRENT ASSETS			
Inventories		**50,277**	60,102
Trade and bills receivables	*10*	**539,319**	466,963
Prepaid lease payments		**519**	519
Prepayments, deposits and other receivables		**82,869**	24,163
Restricted bank balances	*11*	**73,618**	71,788
Bank deposits with original maturity of more than three months	*11*	**–**	51,886
Bank deposits, bank balances and cash	*11*	**403,298**	341,400
		1,149,900	1,016,821
CURRENT LIABILITIES			
Trade payables	*12*	**186,588**	134,129
Bills payable	*13*	**114,113**	119,502
Advances from customers and other payables		**89,747**	90,735
Contract liabilities		**19**	–
Borrowings	*14*	**200,000**	50,000
Tax liabilities		**35,877**	45,046
		626,344	439,412
NET CURRENT ASSETS		**523,556**	577,409
TOTAL ASSETS LESS CURRENT LIABILITIES		**869,046**	795,821

	Notes	**2018** *RMB'000*	2017 *RMB'000*
CAPITAL AND RESERVES			
Share capital	*15*	**997**	997
Reserves		**849,378**	780,362
TOTAL EQUITY		**850,375**	781,359
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**7,587**	3,500
Deferred income - government grants		**11,084**	10,962
		18,671	14,462
		869,046	795,821

Notes:

1. GENERAL AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the Related Amendments*
IFRIC - Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

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 performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

The Group recognises revenue from manufacturing and sales of optical fibre cables.

Information about the Group's performance obligations resulting from application of IFRS 15 are disclosed in notes 3.

Summary of effects arising from initial application of IFRS 15

As at 1 January 2018, advances from customers of RMB815,000 were reclassified to contract liabilities.

2.2 IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and finance lease receivables and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of IFRS 9

Impairment under ECL model

As at 1 January 2018, the Directors reviewed and assessed the Group's financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade and bills receivables. To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics and have been individually assessed based on internal credit rating, customers' ageing and historical observed default rates over the expected life of the customers and adjusted for forward-looking information that is available without undue cost or effort.

Loss allowances for other financial assets at amortised cost mainly comprise other receivables, bank deposits with original maturity more than three months, restricted bank balances, bank deposits and bank balances, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

Based on the assessment by the Directors, additional impairment loss on the Group's trade, bills and other receivables, bank deposits with original maturity more than three months, restricted bank balances, bank deposits and bank balances recognised under IFRS 9 as at 1 January 2018 was insignificant.

New and revised IFRSs in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[2]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[3]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015 – 2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.

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

3 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.

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

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

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.

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, 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 are made to customers located in the PRC.

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables 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. Revenues are recognised when control of optical fibre cables has been transferred, being when they have been shipped to the customers' specific locations based on the quantity of optical fibre cables received by the customers. No provision for returns of optical fibre cables are set out in the relevant sales agreements, unless they could be replaced if there are quality problems found. A receivable is recognised by the Group when the goods are delivered to the customer's specific location 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 they are accepted 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.

As the Group is principally engaged in the manufacturing and sales of optical fibre cables, 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 deferred tax assets) are situated in the PRC.

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest income	**4,956**	4,157
Foreign exchange gain (losses), net	**1,677**	(6,715)
Sales of electricity and gain on sales of other materials	**2,163**	271
Government grants recognised	**3,399**	3,286
Gain (loss) on disposals of property, plant and equipment, net	**134**	(7)
Gain on disposals of an available-for-sale investment	**–**	202
Others	**(1)**	231
	12,328	1,425

6. FINANCE COSTS

The amount represents interest on bank borrowings.

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**14,181**	18,858
– Deferred tax	**12,930**	(1,601)
Total income tax recognised in profit or loss	**27,111**	17,257

No provision for income taxes of the Company and its certain subsidiaries, Century Planet Limited, Nanfang Communication Group Limited, MacroSmart Investment Limited in respect of Cayman Islands, BVI and Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the year (2017: 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 Yingke Communication Technology Company Limited* 江蘇盈科通信科技有限公司, a subsidiary of the Company, was 25% for the year (2017: 25%) while Jiangsu Nanfang Communication Technology Company Limited* 江蘇南方通信科技有限公司 ("**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% during the year (2017: 15%) pursuant to the relevant regulations.

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**13,355**	9,109
Less: Depreciation capitalised in inventories	**(11,524)**	(8,599)
	1,831	510
Release of prepaid lease payments	**527**	340
Auditor's remuneration	**1,300**	1,200
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**38,147**	29,809
Retirement benefit scheme contributions	**4,044**	2,678
Total staff cost	**42,191**	32,487
Cost of inventories recognised as cost of sales	**673,627**	692,644

9. EARNINGS PER SHARE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**141,432**	130,332

	Year ended 31 December	
	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic and diluted 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	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**537,513**	468,829
Bills receivable *(Note)*	**7,861**	2,920
Less: Allowance of doubtful debts	**(6,055)**	(4,786)
	539,319	466,963

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

The following is an ageing analysis of trade receivables, net of allowance for doubtful debts, presented based on revenue recognition date:

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Less than 6 months	**456,249**	396,777
More than 6 months, but less than 1 year	**67,194**	62,135
More than 1 year	**8,015**	5,131
	531,458	464,043

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 customers with good repayment history. The Group does not obtain collateral from customers.

Age of trade receivables as at 31 December 2017 that are past due but not impaired is analysed as follows:

	RMB'000
Less than 6 months	1,142
More than 6 months, but less than 1 year	–
More than 1 year	–
	1,142

Before adoption of IFRS 9, the management assessed at end of the reporting period whether there is objective evidence that trade receivables are impaired. The Group would provide for individual receivable that were considered to be impaired based on management assessment performed at the end of the reporting period.

Movement in the allowance of doubtful debts are set out as follows:

	RMB'000
At 1 January 2017	6,173
Reversed during the year	(1,387)
At 31 December 2017	4,786

Since the adoption of IFRS 9 on 1 January 2018, the Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade and bills receivables. To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics and have been individually assessed based on internal credit rating, customers' ageing and historical observed default rates over the expected life of the customers and adjusted for forward-looking information that is available without undue cost or effort. Based on the assessment by the Directors, no additional impairment loss on the Group's trade and bills receivables as at 1 January 2018 and impairment loss of RMB6,055,000 on the Group's trade receivables as at 31 December 2018 under the lifetime ECL was made.

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

Bank deposits with original maturity more than three months, restricted bank balances, bank deposits and bank balances carry interest at prevailing market interest rates at the end of the reporting period.

As at 31 December 2017 and 2018, the Group's restricted bank balances were pledged to banks for issuing bills payable and certain performance bonds.

As at 31 December 2018, the bank deposits with original maturity of more than three months of RMB1,220,000 and RMB1,815,000 will be due for withdrawal in May 2020 and December 2020, respectively.

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	
	2018	2017
	RMB'000	*RMB'000*
Less than 6 months	**183,374**	132,786
More than 6 months, but less than 1 year	**2,165**	669
More than 1 year	**1,049**	674
	186,588	134,129

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 balances.

14. BORROWINGS

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Bank borrowings		
– Unsecured	**–**	20,000
– Unsecured with guarantees *(Note)*	**200,000**	30,000
	200,000	50,000

The above bank loans are repayable within one year from the end of the reporting period.

Note: As at 31 December 2017 and 2018, the repayment of these bank loans is guaranteed by group companies at nil consideration.

15. SHARE CAPITAL

	Number of shares *'000*	Share capital *HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2017 and 2018	8,000,000	8,000
Issued and fully paid:		
At 31 December 2017 and 2018	1,120,000	1,120

Presented in the consolidated financial statements as

	RMB'000
At 31 December 2017 and 2018	997

16. DIVIDEND

The Board recommended the payment of a final dividend of RMB0.0625 per ordinary share (2017: HK¢7.5 (equivalent to RMB0.06) per ordinary share) in respect of the year ended 31 December 2018, in an aggregate amount of RMB70,000,000 (2017: HK$84,000,000 (equivalent to RMB72,416,000)) 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 stable revenue of approximately RMB900.3 million for the year ended 31 December 2018 (year ended 31 December 2017: approximately RMB901.3 million).

During the year ended 31 December 2018, the gross profit of the Group was approximately RMB226.7 million (year ended 31 December 2017: approximately RMB208.7 million) and achieved a growth of approximately 8.6%.

During the year ended 31 December 2018, the Company reported a remarkable growth in profit and total comprehensive income for the period attributable to owners of the Company by approximately 8.5% to approximately RMB141.4 million (year ended 31 December 2017: approximately RMB130.3 million).

During the year ended 31 December 2018, the Company's basic earning per share was approximately RMB0.13 (year ended 31 December 2017: approximately RMB0.12).

MAJOR BUSINESS ARRANGEMENT

A. CONNECTED TRANSACTION/CONTINUING CONNECTED TRANSASCTION

1. WITH HENGTONG LIGHT GUIDE

Upon the establishment of the joint venture namely Jiangsu Yingke Optical Material Technology Company Limited* 江蘇盈科光導科技有限公司 ("**Yingke Optical Material**") on 24 October 2017:

i. On 4 April 2018, Jiangsu Hengtong Light Guide New Materials Company Limited* 江蘇亨通光導新材料有限公司 ("**Hengtong Light Guide**") and Yingke Optical Material entered into a machinery procurement agreement in relation to the acquisition of the first batch of machineries for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide; (2) Hengtong Light Guide and Yingke Optical Material entered into a lease agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for a period from 4 April 2018 to 31 December 2020; (3) Hengtong Light Guide and Yingke Optical Material entered into a framework procurement agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for a period from 4 April 2018 to 31 December 2020; and (4) Yingke Optical Material and Jiangsu Nanfang Optic Electric Technology Company Limited* 江蘇南方光纖科技有限公司 ("**Nanfang Optic**") entered into a framework supply agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for a period from 4 April 2018 to 31 December 2020.

ii. On 24 May 2018, Hengtong Light Guide and Yingke Optical Material entered into another machinery procurement agreement in relation to the acquisition of the second batch of machineries for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide.

As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, which is a subsidiary of the Company for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and Jiangsu Hengtong Optic-Electric Company Limited* 江蘇亨通光電股份有限公司 ("**Jiangsu Hengtong**") is the holding company of Hengtong Light Guide, both Jiangsu Hengtong and Hengtong Light Guide are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic will be regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore will also be considered as a connected person of the Company at the subsidiary level.

Therefore, the transaction contemplated under the machinery procurement agreements would constitute a connected transaction and the transactions contemplated under each of the lease agreement, the framework procurement agreement and the framework supply agreement would constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) each of Hengtong Light Guide and Nanfang Optic is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under each of the machinery procurement agreements, the lease agreement, the framework procurement agreement and the framework supply agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transaction contemplated under each of the machinery procurement agreements, the lease agreement, the framework procurement agreement and the framework supply agreement and confirmed that the terms of these agreements are fair and reasonable and on normal commercial terms and in the interests of the Company and the Company's shareholders ("**Shareholders**") as a whole, by virtue of Rule 14A.101 of the Listing Rules, the connected transaction under the machinery procurement agreements and the continuing connected transactions under the lease agreement, the framework procurement agreement and the framework supply agreement are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details of the establishment of Yingke Optical Material and connected transactions/continuing connected transactions, please refer to the Company's announcements dated 13 October 2017, 25 October 2017, 4 April 2018 and 24 May 2018.

2. WITH JIANGSU HENGTONG

On 28 September 2018, Nanfang Communication and Jiangsu Hengtong entered into the Jiangsu Hengtong Framework Procurement and Supply Agreement in relation to the ongoing purchase and sales of communication products including (i) optical fibre preforms, (ii) optical fibre and (iii) optical fibre cables and their raw materials between Nanfang Communication Group and Jiangsu Hengtong Group (as defined in the announcement of the Company dated 28 September 2018) for a period from 28 September 2018 to 31 December 2020.

As Jiangsu Hengtong is the holding company of Hengtong Light Guide, which is a substantial shareholder of Yingke Optical Material, a subsidiary of the Company for the purpose of the Listing Rules, Jiangsu Hengtong is considered as a connected person of the Company at the subsidiary level.

Therefore, the transactions contemplated under the Jiangsu Hengtong Framework Procurement and Supply Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) Jiangsu Hengtong is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under the Jiangsu Hengtong Framework Procurement and Supply Agreement are on normal commercial terms; (iii) the Board (including all the independent nonexecutive Directors) have approved the transactions contemplated under the Jiangsu Hengtong Framework Procurement and Supply Agreement and confirmed that the terms of the Jiangsu Hengtong Framework Procurement and Supply Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the continuing connected transactions under the Jiangsu Hengtong Framework Procurement and Supply Agreement are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details of the continuing connected transactions, please refer to the Company's announcement dated 28 September 2018.

B. CHANGE IN SHAREHOLDING STRUCTURE OF CONTROLLING SHAREHOLDER

On 28 August 2018, Ms. Yu Ruping and Mr. Yu Jinlai ("**Mr. Yu**") transferred their respective shares in Pacific Mind, in aggregate representing 40% of the entire issued share capital thereof, to Ms. Yu Rumin ("**Ms. Yu**"), by way of gifts (the "**First Transfer**") and then Ms. Yu transferred all her shares in Pacific Mind, representing the entire issued share capital thereof, to UBS Nominee Limited (the "**Nominee Company**"), as the nominee of the trustee, by way of gifts (the "**Second Transfer**" and together with the First Transfer, the "**Transfers**").

An application has been made to the Securities and Futures Commission of Hong Kong ("**SFC**") for a waiver from the obligation to make a general offer for the Company's shares as a result of the Transfers and the Executive has granted a waiver from making a general offer pursuant to Note 6(a) to Rule 26.1 of the Takeovers Code in favour of the trustee and the Nominee Company in this regard.

For details of the change in shareholding structure of controlling shareholder of the Company, please refer to the Company's announcement dated 29 August 2018.

C. POSSIBLE SUBSCRIPTION OF PREFERRED SHARES IN THE TARGET

On 6 November 2018, the Company entered into a non-legally binding term sheet dated 6 November 2018 (the "**Term Sheet**") with a company with limited liability incorporated under the laws of Cayman Islands (the "**Target**") and certain other parties thereto, pursuant to which the parties to the Term Sheet will further negotiate with the Company for the proposed subscription of certain number of preferred shares of par value of USD0.0001 each of the Target (the "**Preferred Shares**") to be issued by the Target to the Company at a share price to be determined by the parties upon signing of a formal agreement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Target and its ultimate beneficial owners is a party who is a third party independent of the Company and its connected persons and their respective associates (within the meaning of the Listing Rules) (an "**Independent Third Party**").

For details, please refer to the Company's announcement dated 6 November 2018.

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 2018 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. During the year ended 31 December 2018, revenue of the Group amounted to approximately RMB900.3 million, representing a stable trend from approximately RMB901.3 million for the year ended 31 December 2017.

Cost of Sales

For the year ended 31 December 2018, cost of sales of the Group was approximately RMB673.6 million, representing a decline of approximately 2.7% from approximately RMB692.6 million for the year ended 31 December 2017. The slight decline was due to the cost of optical fibre, the raw material for manufacturing optical fibre cables which remained stable and a structural adjustment on the sales mix leading to a decrease in cost of sales.

Gross profit and margin

Gross profit increased by approximately 8.6% to approximately RMB226.7 million for the year ended 31 December 2018 from approximately RMB208.7 million for the same period in 2017. During the period, the Group's gross profit margin was 25.2% as compared to a gross profit margin of 23.2% for the year ended 31 December 2017. The improvement in gross profit margin was mainly attributable to the Major PRC Telecommunications Network Operators having adjusted up their purchase prices and the cost of optical fibre remaining stable.

Other income, gains, expenses and losses, net

A net gain of approximately RMB1.4 million for the year ended 31 December 2017 has been increased to a net gain of approximately RMB12.3 million for the same period in 2018. The increase in net gain during the year was mainly attributable to (i) the increase in interest income to approximately RMB5.0 million (year ended 31 December 2017: approximately RMB4.2 million), (ii) the increase of government grant recognized to RMB3.4 million (year ended 31 December 2017: approximately RMB3.3 million), (iii) a net foreign exchange gain of approximately RMB1.7 million recognized, whereas a net foreign exchange losses of RMB6.7 million for year ended 31 December 2017, and (iv) the increase in the sales of electricity and gain on sales of other materials approximately RMB2.2 million (year ended 31 December 2017: approximately RMB0.3 million).

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 8.7% to approximately RMB16.9 million for the year ended 31 December 2018 from approximately RMB18.5 million for the same period in 2017. The decrease was mainly attributable to the increase of customers' self pick-up ratio which leads to the decline of the transportation fee.

Administrative expenses

The Group's administrative expenses increased by approximately 10.9% to approximately RMB37.3 million for the year ended 31 December 2018 from approximately RMB33.6 million for the year ended 31 December 2017. Following the listing in December 2016, the Group has employed more efforts to manoeuvere the compliance requirement for internal control and governance. The administrative expenses increased in line with the increase in the Group's growing operations.

Research costs

The Group's research costs increased by approximately 20.4% to approximately RMB45.7 million for the year ended 31 December 2018 from approximately RMB38.0 million for the year ended 31 December 2017. The increase was mainly attributable to the proactive deployment of the 5G related industries, and increased the research and development investment in related products.

Finance costs

During the year ended 31 December 2018, the Group's finance costs increased by approximately 38.9% to approximately RMB6.0 million from approximately RMB4.4 million for the same period in 2017. The increase was in line with the increase in bank borrowings.

Share of profit of an associate

During the year ended 31 December 2018, the Group's share of profit of an associate increased by approximately 16.0% to approximately RMB35.4 million from approximately RMB30.6 million for the same period of 2017. The increase was mainly due to the continuous improvement of profitability.

Income tax expense

The Group's income tax expense increased by approximately 57.1% to approximately RMB27.1 million for the year ended 31 December 2018 from approximately RMB17.3 million for the year ended 31 December 2017. The increase was in line with the increase 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 achieved a solid growth in profit and total comprehensive income attributable to owners of approximately 8.5% to approximately RMB141.4 million for the year ended 31 December 2018 from approximately RMB130.3 million for the same period in 2017.

Liquidity, financial and capital resources

Cash position

As at 31 December 2018, the Group had an aggregate of restricted bank balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB480.0 million (2017: approximately RMB465.1 million), representing an increase of approximately 3.2% as compared to that as at 31 December 2017. As at 31 December 2018, the Group had restricted bank balances of approximately RMB73.6 million (2017: approximately RMB71.8 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2018, the Group had bank loans of approximately RMB200.0 million (2017: RMB50.0 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 Company's ultimate holding company and certain bank loans denominated in foreign currencies. The Group does not use any derivative contracts to hedge against its exposure to currency risk, however, 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 and 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 in the event of the counterparties failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade, bills and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In this regard, the Directors consider that the impact to the Group's credit risk is insignificant.

The Group's bank deposits with original maturity more than three months, restricted bank balances, bank deposits and bank balances 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 86.0% (2017: 99.8%) of trade receivables as at 31 December 2018 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 2018, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB2.9 million (2017: approximately RMB2.8 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 2018, the Group had approximately 440 employees. For the year ended 31 December 2018, the Group incurred staff costs of 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 2017 and 2018.

OUTLOOK

On 28 February 2019, the Ministry of Industry and Information Technology of the People's Republic of China, the State Administration of Radio and Television of the People's Republic of China and China Media Group jointly issued the Action Plan on Development of Ultra-high Definition Video Industry (2019-2020) (《超高清視頻產業發展行動計劃 (2019-2020)》), which requires to promote the development of ultra-high definition video industry and related applications according to the overall technology route of the "Putting 4K first while taking into consideration of 8K (4K先行, 兼顧8K)". It also specifies some key missions that need to be accomplished during 2019-2020, including the improvement of network transmission capability, which, to be more specifically, includes the development of network equipment and software systems, such as high speed fibre transmission and access, high-capacity router switches, 5G communications and SDN/NFV (Software Defined Network/Network Function Virtualization), to make wired networks more IP-based and proceed with fibre upgrade. Under the requirements and planning of this policy, it is expected that the development of the ultra-high definition video industry will be pushed forward at a high speed, and the construction of related network infrastructure will be launched tremendously. The investment of NRTA and Major Stated-owned Telecommunication Network Operators in respect of networks is expected to grow continuously, which will benefit the development of the optical fibre cable industry with an expected growth in demand.

Meanwhile, in order to give full play to the role of standards in the top-level design and leading the standardization of the construction of the Industrial Internet industry ecosystem, promote the transformation and upgrading of related industries and accelerate the building of the manufacturing power and network power, on 8 March 2019, the Ministry of Industry and Information Technology and the Standardization Administration of the PRC jointly formulated and published a notice regarding the Guide on Integrated Standardization System Construction for Industrial Internet (《工業互聯網綜合標準化體系建設指南》). According to the notice, the Industrial Internet not only improves the connection scene and quantity for the existing network environment, but also makes a great leap forward in the connection quality and level. Industrial Ethernet, Industrial Passive Optical Network (PON) and Low-Power Wireless Network will become important forces driving the development of the Internet. It is foreseeable that a certain size of network construction is to be launched in a timely manner, resulting in a strong demand for optical fibre in the PRC in 2019.

Recently, during the national two sessions, Mr. Miao Wei, Minister of the Ministry of the Industry and Information Technology of the PRC, said that at the end of 2018, the 100M fibre to home accounted for more than 70% of the total fibre to home. In 2019, the PRC government will carry out a pilot demonstration of Gigabit fibre to home, enabling a part of the existing 70% of the 100M fibre to home to transfer to Gigabit fibre to home. In addition, Minister Miao Wei also pointed out that since the 5G license would be issued soon in the PRC, the application of 5G communication network would be materialised, 5G network infrastructure investment would accelerate its pace, and operators would maintain their high demand for optic fibre cable. For the optic fibre cable industry in the PRC, speeding up and lowering fees means that the PRC will not only continue to launch network construction in 2019, but also continue to stimulate demand in the domestic optic fibre cable market, which will play a positive role in promoting the development of domestic optic fibre cable industry.

In 2018, the Group established a joint venture company for the manufacturing of optical fibre preforms with its partner. Currently, the construction is proceeding as planned and the joint venture company is expected to be put into production by the end of 2019, after which, the Group's raw material supply will be secured. This alignment of the complete industry chain will enhance the gross profit margin and competitiveness of the Company.

In 2019, the Group will continue to implement the Company's capacity expansion plan to improve its production efficiency. Focusing on the communication industry, in particular the product demand of 5G network, we will have a substantial access to the new hardware production industry necessary for the construction of 5G network, further expand the overseas market to establish a stable overseas sales network and explore the opportunity to set foot in the basic telecommunication operator, so as to grasp the growth potential of the communication industry and enhance our competitiveness in the market and market share.

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.

As at 31 December 2018, approximately HK$174.2 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 2018**	**Unutilised as at 31 December 2018**
	%	*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	47.1	74.2
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**	**174.2**	**74.2**

** 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 for the period from the date of Listing 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 19 June 2019 (Wednesday) 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 for the year ended 31 December 2018 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 throughout the year ended 31 December 2018 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 2018 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, 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, 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 14 June 2019 (Friday) to 19 June 2019 (Wednesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 13 June 2019 (Thursday).

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 26 June 2019 (Wednesday) to 28 June 2019 (Friday), both days inclusive. The record date will be 28 June 2019 (Friday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 25 June 2019 (Tuesday). During the above closure periods, no transfer of shares will be registered. The proposed final dividend will be paid on 31 July 2019 (Wednesday) 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 22, 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 2018 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

No important events affecting the Group have occurred subsequent to 31 December 2018 and up to the date of this announcement.

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 2018 annual report will be despatched to the Company's shareholders on or before 29 April 2019 (Monday) 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, 26 March 2019

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*