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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

For the six months ended 30 June 2019, the Group's operating results were as follows:

- Total revenue decreased by approximately 11.6% to approximately RMB372.8 million (six months ended 30 June 2018: approximately RMB421.9 million).

- Gross profit increased by approximately 13.5% to approximately RMB115.4 million (six months ended 30 June 2018: approximately RMB101.7 million).

- Gross profit margin increased by approximately 6.9% to approximately 31.0%.

- Profit and total comprehensive income for the period attributable to owners of the Company decreased by approximately 22.3% to approximately RMB52.1 million (six months ended 30 June 2018: approximately RMB67.1 million).

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019.

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 unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2019, together with the comparative unaudited figures for the six months ended 30 June 2018, as follows. The unaudited condensed consolidated interim results have not been audited and reviewed by the auditors, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3, 4*	**372,839**	421,887
Cost of sales		**(257,408)**	(320,161)
Gross profit		**115,431**	101,726
Other income, gains, expenses and losses, net	*5*	**6,714**	6,615
Selling and distribution expenses		**(8,263)**	(9,608)
Administrative expenses		**(17,188)**	(14,211)
Research costs		**(15,925)**	(14,592)
Finance costs	*6*	**(4,621)**	(1,883)
Share of (loss)/profit of an associate		**(10,290)**	16,486
Share of profit of a joint venture		**50**	227
Profit before tax	*8*	**65,908**	84,760
Income tax expense	*7*	**(13,783)**	(17,648)
Profit and total comprehensive income for the period		**52,125**	67,112
Earnings per share	*9*		
– Basic		**RMB0.05**	RMB0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**109,022**	110,072
Prepaid lease payments		**–**	24,194
Interest in an associate		**106,579**	116,867
Interest in a joint venture		**77,872**	77,822
Prepayments for property, plant and equipment and prepaid lease payments		**4,967**	8,164
Right-of-use assets		**26,541**	–
Bank deposits with original maturity of more than three months		**3,035**	3,035
Deferred tax assets		**7,025**	5,336
		335,041	345,490
CURRENT ASSETS			
Inventories		**50,165**	50,277
Trade and bills receivables	*11*	**640,246**	539,319
Prepaid lease payments		**–**	519
Prepayments, deposits and other receivables		**80,112**	82,869
Restricted bank balances	*12*	**99,400**	73,618
Bank deposits, bank balances and cash		**511,844**	403,298
		1,381,767	1,149,900
CURRENT LIABILITIES			
Trade payables	*13*	**254,397**	186,588
Bills payable	*14*	**138,771**	114,113
Dividends payable		**70,000**	–
Advances from customers and other payables		**83,235**	89,747
Derivative financial instruments		**700**	–
Contract liabilities		**132**	19
Borrowings	*15*	**270,000**	200,000
Tax liabilities		**43,543**	35,877
		860,778	626,344
NET CURRENT ASSETS		**520,989**	523,556
TOTAL ASSETS LESS CURRENT LIABILITIES		**856,030**	869,046

	Notes	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*16*	**997**	997
Reserves		**831,506**	849,378
TOTAL EQUITY		**832,503**	850,375
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**10,367**	7,587
Deferred income - government grants		**10,920**	11,084
Lease liabilities		**2,240**	–
		23,527	18,671
		856,030	869,046

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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 Venture
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the directors of the Company (the "**Directors**") consider that the application of other new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("**IFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

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 standards 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. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. 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;

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.c8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3%.

The carrying amount of right-of-use assets 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

Note: (a) Upfront payments for leasehold land in The People's Republic of China (the "**PRC**") 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.

Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. There are no significant impact of adjustment to refundable rental deposits paid.

There was no significant impact of transition to IFRS 16 on retained profits at 1 January 2019.

The following adjustments were made to the amounts recognised in the condensed 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** *RMB'000*	**Adjustments** *RMB'000*	**Carrying amounts under IFRS 16 at 1 January 2019** *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)	–

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% 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.

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 operating segment information is presented other than the entity-wide disclosures.

Geographical information

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**6,329**	2,894
Foreign exchange gains, net	**113**	961
Gain on sales of other materials	**232**	325
Impairment loss recognised in respect of trade receivables	**(6)**	–
Government grants recognised *(Note)*	**3,086**	3,793
Change in fair value of derivative financial instruments	**(700)**	–
Others	**(2,340)**	(1,358)
	6,714	6,615

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, research costs and other expenses incurred in prior years.

6. FINANCE COSTS

The amount represents interest on bank borrowings.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**12,692**	8,022
– Deferred tax	**1,091**	9,626
Total income tax recognised in profit or loss	**13,783**	17,648

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, a subsidiary of the Company, was 25% for the current interim period (six months ended 30 June 2018: (unaudited) 25%) while Jiangsu Nanfang Communication Technology Company Limited, 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 current interim period (six months ended 30 June 2018: (unaudited) 15%) pursuant to the relevant regulations.

The calculation of income tax in other territories is based on the prevailing tax rate of the country in which the Group operates.

8. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before tax is arrived at after charging:		
Depreciation of property, plant and equipment	**8,729**	6,507
Depreciation of right-of-use assets	**656**	–
Release of prepaid lease payments	**–**	311
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**15,024**	18,959
Retirement benefit scheme contributions	**2,066**	1,708
Total staff cost	**17,090**	20,667
Impairment loss recognised in respect of trade receivables	**6**	–
Cost of inventories recognised as cost of sales	**257,408**	320,161

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**52,125**	67,112

	Six months ended 30 June	
	2019	2018
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary 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. DIVIDEND

During the current interim period, a final dividend of RMB0.0625 (equivalent to HK$0.07098) per ordinary share in respect of year ended 31 December 2018 (six months ended 30 June 2018: (unaudited) a final dividend of HK$0.075 (equivalent to RMB0.06), an aggregate amount of HK$79,576,200 (equivalent to RMB70,000,000) (six months ended 30 June 2018: (unaudited) HK$84,000,000 (equivalent to RMB72,416,000) was declared to the shareholders of the Company.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: (unaudited) Nil).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**621,712**	537,513
Bills receivable	**24,595**	7,861
Less: Allowance of doubtful debts	**(6,061)**	(6,055)
	640,246	539,319

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**539,276**	456,249
More than 6 months, but less than 1 year	**70,042**	67,194
More than 1 year	**6,333**	8,015
	615,651	531,458

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

As at 31 December 2018 and 30 June 2019, the Group's bills receivable were issued by banks with maturity within six months. As of 30 June 2019, the Group did not endorse or discount undue bills receivable in advance.

12. RESTRICTED BANK BALANCES

As at 31 December 2018 and 30 June 2019, the Group's restricted bank balances were pledged to banks for issuing bills payable and certain performance bonds.

13. TRADE PAYABLES

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

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**240,516**	183,374
More than 6 months, but less than 1 year	**12,469**	2,165
More than 1 year	**1,412**	1,049
	254,397	186,588

14. BILLS PAYABLE

As at 31 December 2018 and 30 June 2019, the Group's bills payable were issued by banks with maturity within one year and were secured by the Group's restricted bank balances. The Group has no unpaid bills payable that have been overdue, and all the above amounts are bills payable due within one year.

15. BORROWINGS

As at 31 December 2018 and 30 June 2019, the repayment of these bank loans is guaranteed by group companies at nil consideration.

16. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2018 and 30 June 2019	8,000,000	8,000
Issued and fully paid:		
At 31 December 2018 and 30 June 2019	1,120,000	1,120

Presented in the condensed consolidated financial statements as

	RMB'000
At 31 December 2018 and 30 June 2019	997

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB372.8 million for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB421.9 million), representing a decrease of approximately 11.6% as compared to the same period in 2018.

During the six months ended 30 June 2019, the gross profit of the Group was approximately RMB115.4 million (six months ended 30 June 2018: approximately RMB101.7 million) and achieved a growth of approximately 13.5% as compared to the same period in 2018.

During the six months ended 30 June 2019, the Company reported profit and total comprehensive income for the period attributable to owners of the Company of approximately RMB52.1 million (six months ended 30 June 2018: approximately RMB67.1 million), representing a decrease of approximately 22.3% as compared to the corresponding period in 2018.

During the six months ended 30 June 2019, the Company's basic earning per share was approximately RMB0.05 (six months ended 30 June 2018: approximately RMB0.06).

MAJOR BUSINESS ARRANGEMENT

Acquisition of the Target Company and Assignment of Shareholder's Loan

On 26 June 2019, the Company entered into a sale and purchase agreement with Gold Image Limited ("**Gold Image**"), pursuant to which, Gold Image has conditionally agreed to sell the sale shares, representing the entire issued share capital of a target company, and to assign the shareholder's loan. The Company has conditionally agreed to acquire the sale shares and to accept the assignment of the shareholder's loan for a consideration of US$14,715,001.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the acquisition exceed(s) 5% but less than 25%, the acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

For details of the acquisition of the target company and assignment of shareholder's loan, please refer to the Company's announcement dated 26 June 2019.

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables. During the six months ended 30 June 2019, revenue of the Group amounted to approximately RMB372.8 million, representing a decrease of approximately 11.6% from approximately RMB421.9 million for the six months ended 30 June 2018, The decrease was mainly due to the Major PRC Telecommunications Network Operators slowed down its procurement and drove an decrease in the order demand as compared to the same period of last year. The simultaneous decrease in unit selling price led to a decline of revenue.

Cost of sales

For the six months ended 30 June 2019, cost of sales of the Group was approximately RMB257.4 million (six months ended 30 June 2018: approximately RMB320.2 million), representing a decrease of approximately 19.6% as compared to the same period in 2018. The decrease in cost of sales during the reporting period was mainly due to: (i) the slowdown in procurement of the Major PRC Telecommunications Network Operators during the reporting period and the decrease in order demand, which led to the decline of the Group's business scale; (ii) the reduced cost of optical fibres, which is the raw material for manufacturing optical fibre cables.

Gross profit and gross profit margin

For the six months ended 30 June 2019, the Group's gross profit was approximately RMB115.4 million (six months ended 30 June 2018: approximately RMB101.7 million), representing an increase of approximately 13.5% as compared to the same period in 2018. During the period, the Group's gross profit margin was 31.0% as compared to a gross profit margin of 24.1% for the six months ended 30 June 2018. The improvement in gross profit margin was mainly due to the reason that the cost reduction of optical fibres, which is the raw material for manufacturing optical fibre cables, outweighted the unit selling price reduction.

Other income, gains, expenses and losses, net

A net revenue of approximately RMB6.6 million for the six months ended 30 June 2018 has been enhanced to approximately RMB6.7 million for the same period in 2019. The increase in net gain during the period was mainly attributable to the increase of interest income to approximately RMB6.3 million (six months ended 30 June 2018: approximately RMB2.9 million).

Selling and distribution expenses

For the six months ended 30 June 2019, the Group's selling and distribution expenses was approximately RMB8.3 million (six months ended 30 June 2018: approximately RMB9.6 million), representing a decrease of approximately 14.0% as compared to the same period in 2018. The decrease was in line with a decline in business scale and thus a decline in transportation costs.

Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses was approximately RMB17.2 million (six months ended 30 June 2018: approximately RMB14.2 million), representing an increase of approximately 20.9% as compared to the same period in 2018. The Group has continued to deploy resources to maneuver various compliance requirements for internal control and governance. The administrative expenses increased in line with the increase in the Group's operations.

Research costs

The Group's research costs were approximately RMB15.9 million for the six months ended 30 June 2019, as compared to approximately RMB14.6 million for the six months ended 30 June 2018, which remained consistent.

Finance costs

During the six months ended 30 June 2019, the Group's finance costs was approximately RMB4.6 million (six months ended 30 June 2018: approximately RMB1.9 million), representing an increase of approximately 145.4% as compared to the same period in 2018. The increase in finance costs was in line with the increase in bank borrowings.

Share of loss/profit of an associate

The Group recognised a share of loss of an associate of approximately RMB10.3 million for the six months ended 30 June 2019, while there was share of profit of an associate of approximately RMB16.5 million for the six months ended 30 June 2018. The associate is principally engaged in the manufacturing and sales of optical fibres. The loss for the period was due to the reason that the adjustment of the purchase price of its raw material optical fibre preforms lagged behind the adjustment of unit selling price of its optical fiber products, and thus its profitability was impaired.

Income tax expense

During the six months ended 30 June 2019, the Group's income tax expense was approximately RMB13.8 million (six months ended 30 June 2018: approximately RMB17.6 million), representing a decrease of approximately 21.9% as compared to the same period in 2018. The decline was in line with the decrease in the Group's profitability.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, for the six months ended 30 June 2019, the Company has recorded profit and total comprehensive income attributable to owners of approximately RMB52.1 million (six months ended 30 June 2018: approximately RMB67.1 million), representing a decrease of approximately 22.3% as compared to the same period in 2018.

Liquidity, financial and capital resources

Cash position

As at 30 June 2019, 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 RMB614.3 million (as at 31 December 2018: approximately RMB480.0 million), representing an increase of approximately 28.0% as compared to that as at 31 December 2018. As at 30 June 2019, the Group had restricted bank balances of approximately RMB99.4 million (as at 31 December 2018: approximately RMB73.6 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 30 June 2019, the Group had bank loans of approximately RMB270.0 million (as at 31 December 2018: 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 reporting period 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. Exposure to movements in exchange rates for individual transactions (such as dividend paid) is minimised by using foreign exchange forward contracts.

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 each reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets stated in the Group's condensed 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 91.6% (as at 31 December 2018: 86.0%) of trade receivables as at 30 June 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 any other significant concentration of credit risk.

Liquidity risk

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

Capital commitments

As at 30 June 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 RMB0.57 million (as at 31 December 2018: approximately RMB2.9 million).

OUTLOOK

In March 2019 and August 2019, China Mobile and China Telecom completed their 2019 optical fibre cable central tendering respectively. The total purchase volume was broadly similar to that of 2018. However, the awarded tendering prices decreased significantly as compared to that of 2018, which was mainly due to the reason that (1.) Under the circumstance that the 4G market was nearly saturated while the large-scale construction of 5G network was still pending, the telecommunications operators' demands for optical fibres and optical fibre cables were lower than before. (2.) As the telecommunications operators shall invest substantial sums for 5G network testing and infrastructure aiming at enhancing the internet speed and lowering the network utilization fees, operators cannot avoid cost-cutting measures in various areas, so as to achieve their fiscal balance. (3.) In 2019, as the capacity of optical fibre preform suppliers released, the shortage of supply of optical fibre preform is alleviated, which led to a great increase in capacity of optical fibre industry. The Group ranked the 7th and 6th in the abovementioned operators' tendering respectively. The total number of awarded tenders remained stable as compared to that of 2018 and achieved a greater market share. Owing to the drastic decrease in awarded tendering prices, the Group anticipated that the revenues in the second half of 2019 shall be decreased significantly as compared with the corresponding period in 2018.

Since the Group and its cooperative partners have established a joint venture engaged in optical fibre preform industry and an associate engaged in optical fibre industry, a complete industry chain has been formulated. The raw material supply at a reasonable price for the Group is secured. Despite the significant decline in revenues in the second half of 2019, the Company expected that gross margin will remain stable while the gross profit margin will increase.

Regarding the establishment of the associate engaged in optical fibre industry by the Group and its cooperative partners, as the purchase price adjustment of raw material optical fibre preform lagged behind the selling price adjustment of optical fibre products, substantial loss was recorded in the first half of 2019. As the purchase price of optical fibre preform will be adjusted in the second half of 2019, it is expected that the profitability will be improved.

On 6 June 2019, the Ministry of Industry and Information Technology of the People's Republic of China officially granted 5G commercial licenses to China Mobile, China Telecom, China Unicom and China Broadcasting Networking Corporation and it signifies a new chapter for the 5G commercial use in the PRC. Meanwhile, the development of 5G communication network construction have been successively supported among the PRC, demanding that the 5G large-scale network construction shall be accelerated. The issuance of 5G licenses marks the acceleration of 5G commercial use. Hence, the downturn among the optical fibre cable enterprises shall be attenuated very soon. In 2020, the 5G large-scale deployment is expected to change the supply and demand pattern of the optical fibre cable industry, and therefore drive for a demand for optical fibre cable.

To meet the challenges ahead, the Group will have a substantial access to the new hardware production industry necessary for the construction of 5G network, identify relevant capital investment opportunities, further expand the overseas market, enhance our competitiveness in the market and market share with a view to optimise return to our shareholders during the second half of 2019.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

As at 30 June 2019, approximately HK$177.9 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

		Original plan allocation of net proceeds	**Actual utilised as at 30 June 2019**	**Unutilised as at 30 June 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	50.8	70.5
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**	**177.9**	**70.5**

** 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.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the six months ended 30 June 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 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 six months ended 30 June 2019.

AUDIT COMMITTEE

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

The Audit Committee had, together with the management of the Company, reviewed the Group's unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 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 listed securities.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2019 and up to the date of this announcement, the Group had no material acquisition or disposal of its subsidiaries and associated companies.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group have occurred since the end of the six months ended 30 June 2019 and up to the date of this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement will be published on the website of each of Hong Kong Exchanges and Clearing Limited (www.hkexnews.com.hk) and the Company (www.jsnfgroup.com). The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the Company's shareholders on or before 27 September 2019 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, 28 August 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.