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Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1617)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Total revenue increased by approximately 11.8% to approximately RMB901.3 million (2016: approximately RMB805.9 million).
- Gross profit increased by approximately 14.5% to approximately RMB208.7 million (2016: approximately RMB182.3 million).
- Gross profit margin increased by approximately 0.6% to approximately 23.2% (2016: approximately 22.6%).
- Profit and total comprehensive income for the year attributable to owners of the Company increased by approximately 30.3% to approximately RMB130.3 million (2016: approximately RMB100.0 million).
- The Board recommended the payment of a final dividend of HK7.5 cents (equivalent to approximately RMB6.0 cents) 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 2017 together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Revenue	*3,4*	**901,328**	805,921
Cost of sales		**(692,644)**	(623,660)
Gross profit		**208,684**	182,261
Other income, gains, expenses and losses, net	*5*	**2,812**	206
Selling and distribution expenses		**(18,539)**	(10,580)
Administrative expenses		**(33,603)**	(25,824)
Listing expenses		**–**	(22,381)
Research costs		**(37,977)**	(27,360)
Finance costs	*6*	**(4,351)**	(5,096)
Share of profit of an associate		**30,563**	23,360
Profit before tax	*8*	**147,589**	114,586
Income tax expense	*7*	**(17,257)**	(14,553)
Profit and total comprehensive income for the year		**130,332**	100,033
Earnings per share	*9*		
– Basic		**RMB 0.12**	RMB 0.12
– Diluted		**N/A**	RMB 0.12

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**97,084**	84,556
Prepaid lease payments		**24,721**	12,820
Interest in an associate		**84,189**	91,554
Interest in a joint venture		**510**	–
Prepayments for property, plant and equipment and prepaid lease payments		**1,229**	6,846
Deferred tax assets		**10,679**	5,578
		218,412	201,354
CURRENT ASSETS			
Inventories		**60,102**	57,304
Trade receivables	*10*	**464,043**	484,063
Bills receivable	*11*	**2,920**	267
Prepaid lease payments		**519**	258
Prepayments, deposits and other receivables		**24,163**	36,547
Available-for-sale investments		**–**	230
Restricted bank balances	*12*	**71,788**	119,386
Bank deposits with original maturity of more than three months	*12*	**51,886**	–
Bank balances and cash	*12*	**341,400**	438,540
		1,016,821	1,136,595
CURRENT LIABILITIES			
Trade payables	*13*	**134,129**	200,589
Bills payable	*14*	**119,502**	195,273
Advances from customers and other payables		**90,735**	97,414
Borrowings	*15*	**50,000**	118,877
Tax liabilities		**45,046**	36,754
		439,412	648,907
NET CURRENT ASSETS		**577,409**	487,688
TOTAL ASSETS LESS CURRENT LIABILITIES		**795,821**	689,042

	Notes	**2017** *RMB'000*	2016 *RMB'000*
CAPITAL AND RESERVES			
Share capital	*16*	**997**	997
Reserves		**780,362**	676,854
TOTAL EQUITY		**781,359**	677,851
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,500**	-
Deferred revenue		**10,962**	11,191
		14,462	11,191
		795,821	689,042

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.

Prior to the reorganisation arrangements (hereinunder referred to as the "**Reorganisation**") undergone by the Group in preparation for the listing (the "**Listing**") of the Company's ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), Jiangsu Nanfang Communication Technology Company Limited* 江蘇南方通信科技有限公司 ("**Nanfang Communication**") and its subsidiary, namely, Jiangsu Yingke Communication Technology Company Limited* 江蘇盈科通信科技有限公司 ("**Yingke**") (collectively referred to as the "**Nanfang Communication Group**") were wholly owned by Mr. Yu Jinlai ("**Mr. Yu**"), Ms. Yu Ruping ("**Ms. Yu RP**"), Mr. Shi Ming ("**Mr. Shi**") and Ms. Yu Rumin ("**Ms. Yu**") who is the spouse of Mr. Shi.

Mr. Shi, Ms. Yu, Mr. Yu and Ms. Yu RP are collectively referred to as the "**Nanfang Communication Equity Holders**".

In preparation for the Listing, the companies comprising the Group underwent the Reorganisation, amongst others, as described below:

(i) Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10 May 2016, with an authorised ordinary share capital of HK$380,000 divided into 380,000,000 ordinary shares of HK$0.001 each and was wholly owned by Pacific Mind which, in turn, is owned as to 60% by Ms. Yu (as nominated by Mr. Shi and Ms. Yu), 30% by Ms. Yu RP and 10% by Mr. Yu.

(ii) Incorporation of Century Planet Limited ("Century Planet")

On 4 January 2016, Century Planet was incorporated as an investment holding company in the BVI with limited liability. The number of authorised ordinary shares of Century Planet is 50,000 ordinary shares of US$1.00 each. On 25 February 2016, one ordinary share in Century Planet was allotted and issued to Ms. Lo Moon Fong ("**Ms. Lo**"), the Company's company secretary and finance manager. On 17 June 2016, Ms. Lo transferred the entire issued share capital of Century Planet held by her to the Company at the consideration of US$1.00, being the nominal amount of the ordinary share in Century Planet held by Ms. Lo. As a result, Century Planet and its subsidiaries (Nanfang Communication Group Limited ("**Nanfang Hong Kong**") and MacroSmart Investment Limited* 敏博投資有限公司 ("**MacroSmart**")) became the wholly owned subsidiaries of the Company on 17 June 2016.

(iii) Incorporation of Nanfang Hong Kong by Century Planet

Nanfang Hong Kong was incorporated in Hong Kong on 10 March 2016. On the date of its incorporation, 10,000 ordinary shares in the Nanfang Hong Kong were allotted and issued to the Century Planet at a total subscription price of HKS10,000. As a result, Nanfang Hong Kong became a direct wholly owned subsidiary of Century Planet.

(iv) Establishment of MacroSmart

On 16 May 2016, Macrosmart was established in the PRC with Nanfang Hong Kong as its sole equity holder. As at the date of its establishment, the registered capital of MacroSmart was US$1.0 million and was wholly owned by Nanfang Hong Kong.

(v) Change in registered capital and paid up capital of Nanfang Communication and acquisition of the entire equity interests in Nanfang Communication by MacroSmart

On 17 June 2016, the paid up registered capital of Nanfang Communication was decreased to RMB10.0 million by way of capital reduction from the Nanfang Communication Equity Holders in the aggregate amount of RMB98.9 million. Immediately after the decrease in the paid up registered capital, Nanfang Communication was held as to 30% by Mr. Shi, 30% by Ms. Yu, 30% by Ms. Yu RP and 10% by Mr. Yu.

On 23 June 2016, the registered capital of Nanfang Communication was increased to RMB308.9 million Immediately after the increase in the registered capital, Nanfang Communication was held as to 96.76% by MacroSmart, 0.97% by Mr. Shi, 0.97% by Ms. Yu, 0.97% by Ms. Yu RP and 0.33% by Mr. Yu.

On 25 June 2016, pursuant to an equity transfer agreement entered into amongst Mr. Shi, Ms. Yu, Ms. Yu RP and Mr. Yu and MacroSmart, each of Mr. Shi. Ms. Yu. Ms. Yu RP and Mr. Yu transferred to MacroSmart their equity interests in Nanfang Communication at a consideration of RMB3 million, RMB3 million, RMB3 million and RMB1 million, respectively. The consideration was determined based on the paid up registered capital of Nanfang Communication in the amount of RMB10 million and it was fully settled in cash and the transfer was completed in June 2016. Subsequent to the transfer, Nanfang Communication became a direct wholly owned subsidiary of MacroSmart.

(vi) Acquisition of the entire equity interests in Yingke by MacroSmart

On 27 June 2016, pursuant to an equity transfer agreement entered into between Nanfang Communication and MacroSmart, Nanfang Communication transferred to MacroSmart its entire equity interests in Yingke for a consideration of RMB10 million. The consideration was determined based on the paid up registered capital of Yingke in the amount of RMB10 million. Subsequent to the transfer, Yingke became a direct wholly owned subsidiary of MacroSmart.

Upon completion of the Reorganisation, the Company has become the holding company of the companies now comprising the Group by interspersing the Company, Century Planet, Nanfang Hong Kong and MacroSmart, between Nanfang Communication Equity Holders and the Nanfang Communication Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of the Group.

The Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2016 which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the years, or since their respective dates of incorporation/establishment where it is a shorter period.

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

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**") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

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 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standard 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual improvements to IFRS Standard 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.

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

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

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

3. REVENUE

Revenue represents the amounts received and receivable from the sales of optical fibre cables, net of discounts, customers' returns and sales related taxes during the year.

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.

Major customers

During the year, the total sales to customers individually contributed over 10% of total sales of the Group are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Customer A	**542,620**	382,604
Customer B	**293,536**	373,380

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income	**4,157**	2,727
Foreign exchange (losses) gains, net	**(6,715)**	542
Gain (loss) on sales of other materials	**271**	(187)
Impairment loss reversed (recognised) in respect of trade receivables	**1,387**	(3,027)
Government grants recognised *(Note)*	**3,286**	229
Loss on disposals of property, plant and equipment	**(7)**	–
Gain on disposals of an available-for-sale investment	**202**	–
Others	**231**	(78)
	2,812	206

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

6. FINANCE COSTS

The amount represents interest on bank borrowings.

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**18,858**	18,720
– Deferred tax	**(1,601)**	(4,167)
Total income tax recognised in profit or loss	**17,257**	14,553

No provision for income taxes of the Company, Century Planet, Nanfang Hong Kong and MacroSmart in respect of Cayman Island, BVI and Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the year (2016: 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 Yingke was 25% for the year (2016: 25%) while Nanfang Communication is recognised as a "**High and New Technology Enterprise**" and is entitled to a reduced EIT rate of 15% for the year (2016: 15%) pursuant to the relevant regulations.

8. PROFIT BEFORE TAX

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**9,109**	7,518
Less: Depreciation capitalised in inventories	**(286)**	(352)
	8,823	7,166
Release of prepaid lease payments	**340**	258
Auditors' remuneration	**1,200**	680
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**29,809**	30,211
Retirement benefit scheme contributions	**2,678**	2,424
Total staff cost	**32,487**	32,635
Cost of inventories recognised as cost of sales	**692,644**	623,660

9. EARNINGS PER SHARE

	Year ended 31 December	
	2017	2016
	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)	**130,332**	100,033

	Year ended 31 December	
	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic and diluted earnings per share	**1,120,000**	855,301

The calculation of basic earnings per share for the year ended 31 December 2016 is based on 840,000,000 shares which were issued immediately after the Capitalisation Issue (as defined in note 16(c) below) and deemed to have been issued since 1 January 2016.

During the year ended 31 December 2016, the effect of the over-allotment option in relation to the global offering in which 280,000,000 ordinary shares of HK0.001 each of the Company were issued at a price of HK$1.02 each on 12 December 2016 (the "**Global Offering**") on diluted earnings per share is insignificant.

No diluted earnings per share is presented for the year ended 31 December 2017 as there is no potential ordinary shares outstanding for the year.

10. TRADE RECEIVABLES

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**468,829**	490,236
Less: Allowance of doubtful debts	**(4,786)**	(6,173)
	464,043	484,063

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

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 6 months	**396,777**	397,376
More than 6 months, but less than 1 year	**62,135**	59,866
More than 1 year	**5,131**	26,821
	464,043	484,063

For the year ended 31 December 2017, 95.4% (2016: 99.8%) of the Group's sales of optical fibre cables and other materials were made to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and the remainder was made to other third parties. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% 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 12 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 with a good repayment history. The Group does not obtain collateral from customers.

Age of receivables that are past due but not impaired is analysed as follows:

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 6 months	**1,142**	7,330
More than 6 months, but less than 1 year	**–**	3,573
More than 1 year	**–**	3,580
	1,142	14,483

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:

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
At the beginning of the year	**6,173**	3,146
(Reversed) recognised during the year	**(1,387)**	3,027
At the end of the year	**4,786**	6,173

11. BILLS RECEIVABLE

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

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

Restricted bank balances, bank deposits with original maturity of more than three months, and bank balances carry interest at prevailing market interest rates ranging from 0.3% to 1.9% per annum (2016: from 0.3% to 0.35% per annum) during the year.

As at 31 December 2016 and 2017, 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 ageing analysis of trade payables, presented based on the invoice date:

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 6 months	**132,786**	196,650
More than 6 months, but less than 1 year	**669**	1,014
More than 1 year	**674**	2,925
	134,129	200,589

Included in trade payables are amounts due to an associate of RMB61,809,000 (2016: RMB103,503,000) as at 31 December 2017. The amounts due to the associate were unsecured, interest-free and payable according to the relevant purchase agreements.

14. 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.

15. BORROWINGS

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Bank borrowings		
– Unsecured	**20,000**	60,877
– Unsecured with guarantees *(Note)*	**30,000**	58,000
	50,000	118,877

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

Note: As at 31 December 2016 and 2017, 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:		
On 10 May 2016 (date of incorporation) *(Note (a))*	380,000	380
Increase on 24 November 2016 *(Note (b))*	7,620,000	7,620
At 31 December 2016 and 2017	8,000,000	8,000
Issued and fully paid:		
On 10 May 2016 (date of incorporation) *(Note (a))*	–	–
Issue of ordinary shares upon capitalisation of share premium *(Note (c))*	840,000	840
Issue of ordinary shares *(Note (d))*	280,000	280
At 31 December 2016 and 2017	1,120,000	1,120

Presented in the consolidated financial statements as

	RMB'000
At 31 December 2016 and 2017	997

Notes:

(a) On 10 May 2016 (date of incorporation), the Company was incorporated with an initial authorised ordinary share capital of HK$380,000 divided into 380,000,000 ordinary shares of HK$0.001 each. On the same day, 100 ordinary shares of HK$0.001 each of the Company were issued to Pacific Mind at par.

(b) On 24 November 2016, pursuant to the written resolutions of the sole shareholder of the Company passed on 24 November 2016, the authorised ordinary share capital of the Company was increased from HK$380,000 divided into 380,000,000 ordinary shares of the Company of HK$0.001 each to HK$8,000,000 divided into 8,000,000,000 ordinary shares of the Company of HK$0.001 each by the creation of additional 7,620,000,000 ordinary shares of the Company of HK$0.001 each, such additional ordinary shares of the Company shall rank pari passu in all respects with the existing ordinary shares of the Company.

(c) On 12 December 2016, a total of 839,999,900 ordinary shares of HK$0.001 each of the Company, credited as fully paid at par, were issued by way of capitalisation of a sum of HK$839,999.9 (equivalent to RMB748,000) standing to the credit of the share premium of the Company (the "**Capitalisation Issue**").

(d) On 12 December 2016, 280,000,000 ordinary shares of HK$0.001 each of the Company were issued at a price of HK$1.02 each by way of the Global Offering. On the same date, the Company's ordinary shares were listed on the Main Board of the Stock Exchange. The proceeds of HK$280,000 (equivalent to approximately RMB249,000), representing the par value of the ordinary shares of the Company, were credited to the Company's ordinary share capital. The remaining proceeds of approximately HK$285,320,000 (equivalent to approximately RMB254,026,000), before issuing expenses of RMB12,199,000, were credited to the Company's share premium.

17. DIVIDEND

The Board recommended the payment of a final dividend of HK7.5 cents (equivalent to approximately RMB6.0 cents) per ordinary share for the year ended 31 December 2017 to shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Listing of the Company's shares on the Stock Exchange in December 2016 marked a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge, which laid a solid foundation for the Group's future development. The year 2017 was the first financial year since the Listing of the Group. For the year ended 31 December 2017, the Group's revenue, gross profit and profit and total comprehensive income attributable to owners of the Company all recorded remarkable growth compared to last year.

For the year ended 31 December 2017, the Group reported a continuous increase in its revenue by achieving approximately RMB901.3 million (2016: approximately RMB805.9 million), representing an increase of approximately 11.8% over that of last year. The Major PRC Telecommunications Network Operators continued their large scale construction on telecommunication infrastructure, which resulted in a booming demand in the optical fibre cable market in the PRC. Consequently, the Group, has been awarded more orders from the Major PRC Telecommunications Network Operators, benefited from the long-established relationship and strategic cooperation with them. The Group's total sales revenue has recorded a continuous growth.

For the year ended 31 December 2017, the gross profit of the Group has recorded a continuous growth, in line with the increase in sales revenue for the same period. And the Group has recorded an increase in its gross profit margin to 23.2%. Due to the stringent supply of optical fibre preforms, the major raw materials for production of optical fibres, in domestic market, along with the continuous anti-dumping duties imposed on imported optical fibre preforms, the PRC market has experienced a severe shortage of optical fibre preforms, which in turn led to the shortage of optical fibres, the major raw materials for production of the optical fibre cables. Under such circumstance, the Group has continued to purchase optical fibres from Jiangsu Nanfang Optic Electric Technology Company Limited* 江蘇南方光纖科技有限公司 ("**Nanfang Optic**") to ensure the supply of the raw materials for the Group's production of optical fibre cables. The close relationship between the Group and Nanfang Optic enables the Group to better manage the supply of the raw materials and in turn manage the quality and cost of optical fibre cables. While the prices of optical fibres have been observed an upward trend, which had an adverse impact on the Group's cost of sales, Major PRC Telecommunications Network Operators have adjusted the unit procurement cost, coupled with the Group has undertaken tight control on other production costs, which resulted in a growth in the Group's gross profit margin.

For the year ended 31 December 2017, the Group achieved a profit and total comprehensive income attributable to owners of the Company of approximately RMB130.3 million (2016: approximately RMB100.0 million), representing a substantial increase of approximately 30.3%. By excluding the effect of non-operational expense of a net foreign exchange loss of approximately RMB6.7 million mainly arising from translation of the Group's bank deposits and balances denominated in foreign currencies at the end of the year, the profit and total comprehensive income for the year attributable to owners of the Company would achieve an increase to approximately RMB137.0 million.

In 2017, whereas achieving a continuous growth in business performance, the Group has been awarded as a constituent of MSCI China Small Cap Index China Index. This demonstrates the recognition of the capital market toward the Company. And it, in turn, consolidates the Group's status in the international capital market.

MAJOR BUSINESS ARRANGEMENT

Establishment of a Joint Venture Company

On 12 October 2017, the Company, through Nanfang Communication, entered into a Cooperation Agreement with Jiangsu Hengtong Light Guide New Materials Company Limited* 江蘇亨通光導新材料有限公司 ("**Hengtong Light Guide**"), a wholly owned subsidiary of Jiangsu Hengtong Optic-Electric Company Limited* 江蘇亨通光電股份有限公司 ("**Jiangsu Hengtong**") in respect of the establishment of a joint venture company in the PRC. On 24 October 2017, the joint venture namely Jiangsu Yingke Optical Material Technology Company Limited* 江蘇盈科光導新材料有限公司 ("**Yingke Optical Material**") was established. The total amount of the registered capital of Yingke Optical Material is RMB150,000,000, which will be contributed in cash as to:–

(1) RMB73,500,000, representing 49% of its total registered capital, by Hengtong Light Guide; and

(2) RMB76,500,000, representing 51% of its total registered capital, by Nanfang Communication, which will be funded by part of the net proceeds from the Global Offering and internally generated resources of the Group.

Upon its establishment, Yingke Optical Material is owned as to 51% by Nanfang Communication and 49% by Hengtong Light Guide.

CONTINUING CONNECTED TRANSACTIONS

Upon its establishment, Yingke Optical Material is held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide. Therefore, Yingke Optical Material is treated as a subsidiary of the Company for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, which is a subsidiary of the Company for the purpose of the Listing Rules, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, both Hengtong Light Guide and Jiangsu Hengtong are considered as connected persons of the Company upon the establishment of Yingke Optical Material. As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Jiangsu Hengtong for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company upon the establishment of Yingke Optical Material.

Before Nanfang Optic became a connected person of the Company, Nanfang Communication had entered into an optical fibre supply agreement (the "**Optical Fibre Supply Agreement**") with Nanfang Optic to purchase optical fibres from Nanfang Optic as raw materials for the production of the optical fibre cables during the ordinary course of the production of the Group. As such, the transactions contemplated under the Optical Fibre Supply Agreement became continuing connected transactions for the Company upon the establishment of Yingke Optical Material. Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding the Optical Fibre Supply Agreement. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Optical Fibre Supply Agreement.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 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 consists of revenue derived from manufacturing and sales of optical fibre cables. For the year ended 31 December 2017, revenue of the Group amounted to approximately RMB901.3 million, representing an increase of approximately 11.8% from approximately RMB805.9 million in 2016. Profit and the total comprehensive income attributable to the owners of the Group for the year ended 31 December 2017 was approximately RMB130.3 million, representing an increase of approximately 30.3% from approximately RMB100.0 million in 2016. The increase in revenue was mainly attributable to more sales made to the Major PRC Telecommunications Network Operators.

Gross profit and margin

Gross profit increased by approximately 14.5% to approximately RMB208.7 million in 2017 from approximately RMB182.3 million in 2016. The Group's gross profit margin was 23.2% for year ended 31 December 2017 as compared to a gross profit margin of 22.6% for year ended 31 December 2016.

Other income, gains, expenses and losses, net

The Group recorded an increase from a net gain of approximately RMB0.2 million in 2016 to a net gain of approximately RMB2.8 million in 2017. The increase was mainly attributable to (i) an increase in interest income from approximately RMB2.7 million in 2016 to approximately RMB4.2 million in 2017, (ii) a reversal of impairment loss in respect of trade receivable of approximately RMB1.4 million in 2017 was recorded while an impairment loss of approximately RMB3.0 million was recognized in 2016, (iii) an increase in government grants recognised from approximately RMB0.2 million in 2016 to approximately RMB3.3 million in 2017, and (iv) net foreign exchange losses of approximately RMB6.7 million for year ended 31 December 2017 were recognized from net foreign exchange gains of approximately RMB0.5 million in 2016. Such net foreign exchange losses were mainly arisen from translation of the Group's bank deposits and balances denominated in foreign currencies at the year ended 31 December 2017.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 75.2% to approximately RMB18.5 million in 2017 from approximately RMB10.6 million in 2016. The increase was mainly attributable to an increase in (i) salaries primarily as a result of the employment of new sales staff for new projects; (ii) sales commission primarily as a result of an increase in the Group's revenue; (iii) advertising and promotion expenses in 2017; and (iv) transportation expenses as the Group's optical fibre cables were distributed to customers on a wider geographic coverage.

Administrative expenses

The Group's administrative expenses increased by approximately 30.1% to approximately RMB33.6 million in 2017 from approximately RMB25.8 million in 2016. Following the listing in December 2016, the Group has employed more efforts to maneuver the compliance requirement for a fuller disclosure 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 38.8% to approximately RMB38.0 million in 2017 from approximately RMB27.4 million in 2016. The increase was mainly due to more research and development efforts employed for the purpose of new product development.

Listing expenses

The Group has no listing expenses for the year ended 31 December 2017 whereas it incurred listing expenses of approximately RMB22.4 million in 2016.

Finance costs

The Group's finance costs decreased by approximately 14.6% to approximately RMB4.4 million in 2017 from approximately RMB5.1 million in 2016. The decrease was mainly due to a decrease in bank borrowings.

Share of profit of an associate

The Group's share of profit of an associate increased by approximately 30.8% to RMB30.6 million in 2017 from approximately RMB23.4 million in 2016. The increase was due to an improvement of the profitability of the associate in 2017.

Income tax expense

The Group's income tax expense increased by approximately 18.6% to approximately RMB17.3 million in 2017 from approximately RMB14.6 million in 2016. The increase was consistent with the increase in the Group's profits before tax.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, the profit and total comprehensive income for the year attributable to owners of the Company increased by approximately 30.3% to approximately RMB130.3 million in 2017 from approximately RMB100.0 million in 2016.

Liquidity, financial and capital resources

Cash position

As at 31 December 2017, the Group had an aggregate of restricted bank balances, bank deposits with original maturity of more than three months and bank balances and cash of approximately RMB465.1 million (2016: approximately RMB557.9 million), representing a decrease of approximately 16.6% as compared to that as at 31 December 2016. As at 31 December 2017, the Group had restricted bank balances of approximately RMB71.8 million (2016: approximately RMB119.4 million) that were pledged to banks for issuing bills payable and certain performance bonds.

Borrowings and charges on the Group's assets

As at 31 December 2017, the Group had bank borrowings of approximately RMB50.0 million (2016: approximately RMB118.9 million), all of which were unsecured. All the borrowings will be repayable with one year.

Currency risk

While the Group's operations are 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, advance from the Company's ultimate holding company, listing expenses payable and certain bank borrowings denominated in foreign currencies. The Group does not use any derivative contracts to hedge against its exposure to currency risk. However, the Directors manage the Group's foreign currency risk by closely monitoring the movement of the foreign currency rates.

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 and liabilities, mainly bank balances and borrowings which carried/bore 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 consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade 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 addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on restricted bank balances, bank deposits with original maturity of more than three months and bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has concentration of credit risk because 99.8% (2016: 98.9%) of trade receivables as at 31 December 2017 were due from the Major PRC Telecommunications Network Operators with a good repayment history and a 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 2017, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB2.8 million (2016: approximately RMB3.0 million).

Besides, the Group also had commitment in respect of capital contribution to a joint venture amounting to approximately RMB75,990,000.

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. 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 2017, the Group had approximately 370 employees. For the year ended 31 December 2017, the Group incurred staff costs of approximately RMB32.5 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.

OUTLOOK

Looking back into 2016, the "Broadband China" Strategic Implementation Plan and the Twelfth Five-Year Plan of the Communication Industry were major drivers that generated investments in network construction and upgrades of the broadband telecommunications networks and infrastructure, all of which drove demand for optical fibre cables. In 2017, the "Broadband China" Strategic Implementation Plan and "Internet Plus" ("互 聯 網+") initiative were still continuing. Together with the launch of Thirteenth Five-Year Plan of the Communication Industry, and at the first meeting of the 13th National People's Congress held in March 2018, Li Keqiang, Premier of the State Council stated in the government's work report that the government shall "accelerate the building of a strong manufacturing power and facilitate the development of the fifth generation of mobile communications", these government policies and plans will accelerate the integration of information and communication technologies and industry and achieve the growth in data traffic, which will promote industrial upgrade and in turn stimulate the demand for optical fibre cables as optical fibre cables would be used for the construction of the high-speed broadband network infrastructure. The demand for optical fibre cables in the PRC will remain promising in view of the development of the optical broadband and wireless broadband mobile communications.

To capture the opportunities brought by the rapid development of the PRC communications infrastructure construction, the Group has crystallized its planned production capacity expansion plan in 2017, including adjustment to factory layout of our existing production facilities in Wujin factory. The Company continued to execute land acquisition and relevant government approval and/or permits in order to implement the phase two expansion plan of Jintan factory and strive to complete the plan by the first quarter of 2019. This can further expand the production capacity of the optical fibre cables production facilities and equipment and develop the production of specialty optical fibre cables and related accessories and other new projects. Consequently, this will enable our further expansion in the PRC, increase our market share and expand our product mix to seize potential growth and market opportunities. In the meantime, the Group is positively looking for the suitable communication products for production and sale, so as to expand the operation of the Group.

On 12 October 2017, the Group, through Nanfang Communication, entered into a cooperation agreement with Hengtong Light Guide, to establish a joint venture namely, Yingke Optical Material to be principally engaged in the research and development, manufacturing and sales of fibre preforms and other related products. The Group would contribute its 51% registered capital, and Hengtong Light Guide would contribute its 49% registered capital. Yingke Optical Material was established on 24 October 2017. Currently Yingke Optical Material is under active and close negotiation with Hengtong Light Guide and Nanfang Optic about a series of agreements so that Yingke Optical Material can commence the research and development, manufacturing and sales of fibre preforms within a short period. The establishment and operation of Yingke Optical Material enable the Group to vertically integrate the Group's optical fibre cable production value chain with the upstream production of key raw materials to secure the source of raw materials for the production of optical fibre cables as well as strengthen the existing cooperative relationship between the Group and Jiangsu Hengtong.

Our strategic goal, which is to enhance and strengthen our competitive position in the PRC optical fibre cable industry and to increase our market share in the PRC, remains unchanged. The Group will focus on the following strategies: (i) increase market share and penetration in the PRC, promote our brand and brand awareness in the PRC and continue to increase our production capacity; (ii) strengthen our product research and development capabilities and optimise our product offerings to capture emerging industry growth potentials; (iii) further vertically integrate our optical fibre cable production value chain with the upstream production of key raw materials; and (iv) establish integrated business management information system. All these can enhance our competitiveness in the market and then ultimately improve our profitability.

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 2017, approximately HK$78.9 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 31 December 2017**	**Unutilised as at 31 December 2017**
	%	*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	22.0	99.3
For upstream development or acquisition of the optical fibre cable production value chain	28.5	70.8	0.6	70.2
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**	**78.9**	**169.5**

** 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.

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 14 June 2018 (Thursday) 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 2017 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 2017 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 2017 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 11 June 2018 (Monday) to 14 June 2018 (Thursday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 8 June 2018 (Friday).

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 21 June 2018 (Thursday) to 25 June 2018 (Monday), both days inclusive. The record date will be 25 June 2018 (Monday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 20 June 2018 (Wednesday). During the above closure periods, no transfer of shares will be registered. The proposed final dividend will be paid on 20 July 2018 (Friday) subject to the approval at the AGM.

In order to qualify for attending and voting at the AGM, and qualifying for the final dividend (if approved at the forthcoming AGM), all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 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 2017 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 2017 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.hkex.com.hk) and the Company (www.jsnfgroup.com). The Company's 2017 annual report will be despatched to the Company's shareholders on or before 27 April 2018 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, 23 March 2018

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*