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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

For the six months ended 30 June 2018, the Group's operating results were as follows:

- Total revenue increased by approximately 1.9% to approximately RMB421.9 million (six months ended 30 June 2017: approximately RMB414.0 million).

- Gross profit increased by approximately 22.3% to approximately RMB101.7 million (six months ended 30 June 2017: approximately RMB83.2 million).

- Gross profit margin increased by approximately 4.0% to approximately 24.1%.

- Profit and total comprehensive income for the period attributable to owners of the Company increased by approximately 52.4% to approximately RMB67.1 million (six months ended 30 June 2017: approximately RMB44.0 million).

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2018.

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 2018, together with the comparative unaudited figures for the six months ended 30 June 2017, as follows. The unaudited condensed consolidated interim results are unaudited and not 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 2018

		Six months ended 30 June	
	Notes	**2018**	2017
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**421,887**	414,006
Cost of sales		**(320,161)**	(330,809)
Gross profit		**101,726**	83,197
Other income, gains, expenses and losses, net	*5*	**6,615**	(3,736)
Selling and distribution expenses		**(9,608)**	(6,502)
Administrative expenses		**(14,211)**	(13,715)
Research costs		**(14,592)**	(14,624)
Finance costs	*6*	**(1,883)**	(2,938)
Share of profit of an associate		**16,486**	11,356
Share of profit of a joint venture		**227**	–
Profit before tax	*8*	**84,760**	53,038
Income tax expense	*7*	**(17,648)**	(8,989)
Profit and total comprehensive income for the period		**67,112**	44,049
Earnings per share	*9*		
– Basic		**RMB0.06**	RMB0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**110,424**	97,084
Prepaid lease payments		**24,929**	24,721
Interest in an associate		**100,676**	84,189
Interest in a joint venture		**76,727**	510
Prepayments for property, plant and equipment and prepaid lease payments		**–**	1,229
Deferred tax assets		**4,585**	10,679
		317,341	218,412
CURRENT ASSETS			
Inventories		**81,781**	60,102
Trade and bills receivables	*11*	**615,221**	466,963
Prepaid lease payments		**311**	519
Prepayments, deposits and other receivables		**59,173**	24,163
Restricted bank balances	*12*	**77,144**	71,788
Bank deposits with original maturity of more than three months		**–**	51,886
Bank balances and cash		**314,678**	341,400
		1,148,308	1,016,821
CURRENT LIABILITIES			
Trade payables	*13*	**204,590**	134,129
Bills payable	*14*	**98,294**	119,502
Other payables		**68,593**	90,735
Dividends payable		**70,820**	–
Bank loans	*15*	**180,000**	50,000
Tax liabilities		**51,318**	45,046
		673,615	439,412
NET CURRENT ASSETS		**474,693**	577,409
TOTAL ASSETS LESS CURRENT LIABILITIES		**792,034**	795,821

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*16*	**997**	997
Reserves		**776,656**	780,362
TOTAL EQUITY		**777,653**	781,359
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,532**	3,500
Deferred income - government grants		**10,849**	10,962
		14,381	14,462
		792,034	795,821

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (''**IAS 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 equity instruments at fair value through other comprehensive income, which are measured at fair values.

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 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

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 2018 for the preparation of the Group's condensed consolidated financial statements:

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

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

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

The Group recognises revenue from sale of optical fibre cables.

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

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue from sales of optical fibre cables are recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. 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.

There was no significant impact on the timing and amounts of revenue recognised during the six months ended 30 June 2018 and the amounts recognised in the condensed consolidated statements of financial position at 1 January 2018 and 30 June 2018 upon adoption of IFRS 15.

2.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments*

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

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

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

Classification and measurement of financial assets

Trade and bills receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and there were no significant impact on classification and measurement on the Group's financial assets.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including bank deposits and balances, trade, bills and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments (including bank deposits and balances and other receivables), the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 and additional impairment loss on the Group's bank deposits and balances, trade, bills and other receivables under IFRS 9 as at 1 January 2018 was insignificant.

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 period. The Group's revenue was recognised at a point in time when the customers obtain control of the distinct good.

4. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company, 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 of the Company (the ''**Directors**'') consider that the Group has one reportable 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 People's Republic of China (the ''**PRC**'') and all its non-current assets (other than deferred tax assets) are situated in the PRC.

Major customers

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**212,113**	281,749
Customer B	**191,613**	126,044

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**2,894**	866
Foreign exchange gains (losses), net	**961**	(6,294)
Gain on sales of other materials	**325**	81
Impairment loss recognised in respect of trade receivables	**–**	(4)
Government grants recognised *(Note)*	**3,793**	2,123
Others	**(1,358)**	(508)
	6,615	(3,736)

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

6. FINANCE COSTS

The amount represents interest on bank loans.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**8,022**	6,899
– Deferred tax	**9,626**	2,090
Total income tax recognised in profit or loss	**17,648**	8,989

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 ("**Yingke**"), a wholly owned subsidiary of the Company was 25% for the current interim period (six months ended 30 June 2017: (unaudited) 25%) while Jiangsu Nanfang Communication Technology Company Limited, a wholly owned 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 2017: (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

Profit before tax is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**6,507**	3,989
Release of prepaid lease payments	**311**	360
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**18,959**	13,509
Retirement benefit scheme contributions	**1,708**	1,345
Total staff cost	**20,667**	14,854
Impairment loss recognised in respect of trade receivables	**–**	4
Cost of inventories recognised as cost of sales	**320,161**	330,809

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the period attributable to owners of the Company)	**67,112**	44,049

	Six months ended 30 June	
	2018	2017
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**1,120,000**	1,120,000

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

10. DIVIDEND

During the current interim period, a final dividend of HK¢7.5 (equivalent to RMB0.06) per ordinary share in respect of year ended 31 December 2017 (six months ended 30 June 2017: (unaudited) a final dividend of HK¢2.7 (equivalent to RMB0.02), an aggregate amount of HK$84,000,000 (equivalent to RMB70,820,400) (six months ended 30 June 2016: (unaudited) HK$30,240,000 (equivalent to RMB26,824,000) 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 2018 (six months ended 30 June 2017: (unaudited) Nil).

11. TRADE AND BILLS RECEIVABLES

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Trade receivables	**614,656**	468,829
Bills receivable	**2,400**	1,142
Less: Allowance of doubtful debts	**(3,968)**	(4,786)
	613,088	465,185

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

	At 30 June 2018 *RMB'000* **(Unaudited)**	At 31 December 2017 *RMB'000* (Audited)
Less than 6 months	**505,685**	396,777
More than 6 months, but less than 1 year	**97,490**	62,135
More than 1 year	**7,513**	5,131
	610,688	464,043

For the six months ended 30 June 2018, 98.8% (six months ended 30 June 2017: (unaudited) 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% 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 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 to those long standing third party customers with a good repayment history. The Group does not obtain collateral from customers.

As at 31 December 2017 and 30 June 2018, the Group's bills receivable were issued by banks with maturity within six months. As of 30 June 2018, the Group did not endorse or discount undue bills receivable in advance.

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

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**1,709**	1,142
More than 6 months, but less than 1 year	**691**	–
More than 1 year	**–**	–
	2,400	1,142

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.

12. RESTRICTED BANK BALANCES

As at 31 December 2017 and 30 June 2018, the Group's restricted bank balances were pledged to banks for issuing bills payable.

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 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**197,343**	132,786
More than 6 months, but less than 1 year	**6,591**	669
More than 1 year	**656**	674
	204,590	134,129

Included in trade payables is an amount due to an associate of RMB91,793,000 (as at 31 December 2017: (audited) RMB61,809,000) as at 30 June 2018. The amount due to the associate was unsecured, interest-free and payable according to the relevant purchase agreements.

14. BILLS PAYABLE

As at 31 December 2017 and 30 June 2018, the Group's bills payable were issued by banks with maturity within six months 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 six months.

15. BANK LOANS

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unsecured	**–**	20,000
Unsecured with guarantees *(Note)*	**180,000**	30,000
	180,000	50,000

Note:

As at 31 December 2017 and 30 June 2018, the repayment of these bank loans is guaranteed by group companies.

16. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2017 and 30 June 2018	8,000,000	8,000
Issued and fully paid:		
At 31 December 2017 and 30 June 2018	1,120,000	1,120

Presented in the condensed consolidated financial statements as	
	RMB'000
At 31 December 2017 and 30 June 2018	997

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB421.9 million for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately RMB414.0 million), representing an increase of approximately 1.9%.

During the six months ended 30 June 2018, the gross profit of the Group was approximately RMB101.7 million (six months ended 30 June 2017: approximately RMB83.2 million) and achieved a growth of approximately 22.3%.

During the six months ended 30 June 2018, the Company reported a remarkable growth in profit and total comprehensive income for the period attributable to owners of the Company by approximately 52.4% to approximately RMB67.1 million (six months ended 30 June 2017: approximately RMB44.0 million).

During the six months ended 30 June 2018, the Company's basic earning per share was approximately RMB0.06 (six months ended 30 June 2017: approximately RMB0.04).

MAJOR BUSINESS ARRANGEMENT

Establishment of a Joint Venture Company

On 12 October 2017, the Company, through Jiangsu Nanfang Communciation Techonology Company Limited ("**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 are 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 are funded by part of the net proceeds from the Global Offering and internally generated resources of the Group.

Upon its establishment on 24 October 2017, Yingke Optical Material is owned as to 51% by Nanfang Communication and 49% by Hengtong Light Guide.

CONNECTED TRANSACTION/CONTINUING CONNECTED TRANSASCTION

1. On 4 April 2018,

   (1) Hengtong Light Guide and Yingke Optical Material entered into a machinery procurement agreement in relation to the acquisition of the first batch of machineries for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide; (2) Hengtong Light Guide and Yingke Optical Material entered into a lease agreement in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms for a period from 4 April 2018 to 31 December 2020; (3) Hengtong Light Guide and Yingke Optical Material entered into a framework procurement agreement in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide for a period from 4 April 2018 to 31 December 2020; and (4) Yingke Optical Material and Nanfang Optic entered into a framework supply agreement in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic for a period from 4 April 2018 to 31 December 2020.

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

As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, which is a subsidiary of the Company for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and Jiangsu Hengtong is the holding company of Hengtong Light Guide, both Jiangsu Hengtong and Hengtong Light Guide are considered as connected persons of the Company at the subsidiary level.

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

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

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

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

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 2018, revenue of the Group amounted to approximately RMB421.9 million, representing an increase of approximately 1.9% from approximately RMB414.0 million for the six months ended 30 June 2017. The increase in revenue was mainly attributable to the increase in prices of goods being sold to the Major PRC Telecommunications Network Operators and a structural adjustment on the sales mix.

Cost of Sales

For the six months ended 30 June 2018, cost of sales of the Group was approximately RMB320.2 million, representing a decline of approximately 3.2% from approximately RMB330.8 million for the six months ended 30 June 2017. The decline was due to the cost of optical fibre, the raw material for manufacturing optical fibre cables, remained stable and a structural adjustment on the sales mix.

Gross profit and gross profit margin

Gross profit increased by approximately 22.3% to approximately RMB101.7 million for the six months ended 30 June 2018 from approximately RMB83.2 million for the same period in 2017. During the period, the Group's gross profit margin was 24.1% as compared to a gross profit margin of 20.1% for the six months ended 30 June 2017. The improvement in gross profit margin was mainly attributable to the stringent supply of optical fibre cables in the entire market in China and thus the Major PRC Telecommunications Network Operators has adjusted up their purchase prices and the cost of optical fibre remained stable.

Other income, gains, expenses and losses, net

A net loss of approximately RMB3.7 million for the six months ended 30 June 2017 has been enhanced to a net gain of approximately RMB6.6 million for the same period in 2018. The increase in net gain during the period was mainly attributable to (i) the interest income increased to approximately RMB2.9 million (six months ended 30 June 2017: approximately RMB0.9 million), (ii) the increase of government grant recognized to RMB3.8 million (six months ended 30 June 2017: approximately RMB2.1 million) and (iii) a net foreign exchange gain of approximately RMB1.0 million recognized, whereas a net foreign exchange losses of RMB6.3 million for six months ended 30 June 2017.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 47.8% to approximately RMB9.6 million for the six months ended 30 June 2018 from approximately RMB6.5 million for the same period in 2017. The increase was mainly attributable to (i) escalating salaries as a result of headcounts of sales staff and (ii) increment of unit cost of the transportation.

Administrative expenses

The Group's administrative expenses increased by approximately 3.6% to approximately RMB14.2 million for the six months ended 30 June 2018 from approximately RMB13.7 million for the six months ended 30 June 2017. Following the listing in December 2016, the Group has employed more efforts to manoeuvere the compliance requirement for internal control and governance. The administrative expenses increased in line with the increase in the Group's growing operations.

Research costs

The Group's research costs were approximately RMB14.6 million for the six months ended 30 June 2018, consistent with same period in 2017.

Finance costs

During the six months ended 30 June 2018, the Group's finance costs decreased by approximately 35.9% to approximately RMB1.9 million from approximately RMB2.9 million for the same period in 2017. The decrease was in line with the decrease in bank borrowings.

Share of profit of an associate

During the six months ended 30 June 2018, the Group's share of profit of an associate increased by approximately 45.2% to approximately RMB16.5 million from approximately RMB11.4 million for the same period of 2017. The increase was mainly due to the continuous improvement of profitability.

Income tax expense

The Group's income tax expense increased by approximately 96.3% to approximately RMB17.6 million for the six months ended 30 June 2018 from approximately RMB9.0 million for the six months ended 30 June 2017. The increase was in line with the increase in the Group's profits.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, the Company has achieved a solid growth in profit and total comprehensive income attributable to owners of approximately 52.4% to approximately RMB67.1 million for the six months ended 30 June 2018 from approximately RMB44.0 million for the same period in 2017.

Liquidity, financial and capital resources

Cash position

As at 30 June 2018, 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 RMB391.8 million (as at 31 December 2017: approximately RMB465.1 million), representing a decrease of approximately 15.8% as compared to that as at 31 December 2017. As at 30 June 2018, the Group had restricted bank balances of approximately RMB77.1 million (as at 31 December 2017: approximately RMB71.8 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 30 June 2018, the Group had bank loans of approximately RMB180.0 million (as at 31 December 2017: RMB50.0 million), which were unsecured. All bank loans will be repayable within one year.

Currency risk

While the Group's operations are principally in the PRC during the period and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain restricted bank balances, bank deposits and bank loans denominated in foreign currencies (Hong Kong dollars and United States dollars). 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 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 restricted bank balances, bank deposits and 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 assets stated in the Group's condensed 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 and bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has concentration of credit risk because 98.8% (as at 31 December 2017: 99.8%) of trade receivables as at 30 June 2018 were due from the Major PRC Telecommunications Network Operators with a good repayment history and a strong financial background.

Liquidity risk

The Group's management, by adopting a series of risk management strategy, monitors the Group's cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and 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 2018, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.6 million (as at 31 December 2017: approximately RMB2.8 million).

Beside, the Group has injected capital to a joint venture company of RMB76.0 million as at 30 June 2018.

Employees and remuneration policies

As at 30 June 2018, the Group had approximately 370 employees (six months ended 30 June 2017: approximately 360). During the period, the Group incurred staff costs (including remuneration, salary, other benefits and retirement benefit scheme contributions) of approximately RMB20.7 million, accounting for 4.9% of total revenue of the Group. The Group has been adhering to the applicable PRC laws and regulations and requirements under local labor and social welfare laws and regulations, and has designed a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the prevailing market employment practices and legislation. The Group has organised its staff to participate in training courses, seminars and expertise courses to enhance their professional knowledge and skills, and strengthen their understanding of market development and improve their management and business skills.

OUTLOOK

The year of 2018 has witnessed the continuous promotion of "Broadband China" Strategy, implementation of the new generation information infrastructure construction project, the launch of infrastructure investment by operators and the accelerated construction of 5G networking and application pilot projects. The Chinese government has headed down solid requirements for "increasing efforts in implementing network speed upgrade and tariff reduction measures" in order to achieve full coverage of high-speed broadband in cities and rural areas, expand the coverage of free internet access in public venues with a focus on high-speed broadband coverage in rural areas. On 10 August 2018, the Ministry of Industry and Information Technology of the People's Republic of China and the National Development and Reform Commission of the People's Republic of China have jointly released The Three-Year Action Plan for Expanding and Upgrading Information Consumption (2018-2020)《擴大和升級信息消費三年行動計劃(2018-2020年)》, inter alias, a major goal to achieve optical coverage in urban areas with access more than 100 Mbps by 2020; and make optical fibre readily accessible for 98% of administrative villages with 4G network coverage. Following the dramatic expansion of the rural broadband infrastructure construction this year, the demand for optical fibre in high-speed broadband infrastructure will be strong. We anticipate that such demand in China will remain keen in 2019.

Since 11 July 2018, China has continued to impose anti-dumping duties on imported optical fibre preforms originated from Japan and the United States for a period of five years. This leads to a restrained supply of optical fibre preforms. However, with the capacity expansion and release of the optical fibre preform suppliers in the second half of 2018, we expect that the supply shortage of optical fibre preforms will be moderately relieved, and the demand tension for optical fibre preforms and optical fibres will be alleviated.

In 2017, the Group established a joint venture company for the manufacturing of optical fibre preforms with its partner and reached the principal of the optical fibre cable production chain. Currently, the preparatory work for production of the joint venture company is proceeding as planned. After the joint venture company is put into production, the Group's raw material supply is expected to be secured. This alignment of the complete industry chain will enhance the gross profit margin and competitiveness of the Group.

Looking forward, we will strive to identify qualified optical fibre suppliers to stabilise the supply of optical fibre and explore for upstream development or acquisition of the optical fibre and cable production value chain. This will improve the utilisation of the production capacity of the Group. Meanwhile, we will continue to implement the Group's production capacity expansion plan to improve productivity. While more resources and efforts on research and development are employed, we will endeavor to strengthen our research and development capabilities and optimise product offerings to capture the growth potential in emerging industry growth potentials. All these can further enhance our competitiveness in the market and market share.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

As at 30 June 2018, approximately HK$167.0 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** *HK$'000,000*	**Actual utilised as at 30 June 2018** *HK$'000,000*	**Unutilised as at 30 June 2018** *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	39.9	81.4
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**	**167.0**	**81.4**

** 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 2018 (for the six months ended 30 June 2017: 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 2018 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 2018 and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the six months ended 30 June 2018.

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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2018, 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 2018 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 2018 will be dispatched to the Company's shareholders on or before 27 September 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, 27 August 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*