南方通信
Nanfang Communication

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 2020

HIGHLIGHTS

For the year ended 31 December 2020, the Group's operating results were as follows:

- Total revenue decreased by approximately 29.0% to approximately RMB379.5 million (2019: approximately RMB534.3 million)

- Gross profit decreased by approximately 70.1% to approximately RMB38.7 million (2019: approximately RMB129.5 million)

- Gross profit margin decreased by approximately 14.0% to approximately 10.2% (2019: approximately 24.2%)

- Loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB19.2 million (2019: profit and total comprehensive income of approximately RMB33.9 million)

- The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: approximately RMB0.035 per ordinary share)

The board (the "**Board**") of directors (the "**Directors**") 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 2020 (the "**Reporting Period**"or the "**Year**") together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**379,521**	534,327
Cost of sales		**(340,793)**	(404,781)
Gross profit		**38,728**	129,546
Other income, gains, expenses and losses, net	*5*	**17,996**	20,376
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		**(799)**	(1,029)
Selling and distribution expenses		**(19,327)**	(18,670)
Administrative expenses		**(39,439)**	(41,342)
Research costs		**(22,820)**	(30,236)
Finance costs	*6*	**(4,993)**	(10,421)
Share of profit (loss) of an associate		**181**	(11,014)
Share of profit of a joint venture		**5,538**	4,554
(Loss) profit before tax	*8*	**(24,935)**	41,764
Income tax credit (expense)	*7*	**5,753**	(7,908)
(Loss) profit and total comprehensive (expense) income for the year		**(19,182)**	33,856
(Loss) earnings per share	*9*		
– Basic		**RMB(0.02)**	RMB0.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		At 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**97,167**	107,995
Right-of-use assets		**30,159**	30,054
Interest in an associate		**88,470**	101,614
Interest in a joint venture		**80,045**	82,376
Financial assets at fair value through profit or loss		**151,599**	–
Prepayments for acquiring property, plant and equipment and prepaid expenses		**701**	2,173
Restricted bank deposits and balances	*11*	**1,142**	–
Bank deposits with original maturity more than three months	*11*	**102,600**	98,428
Deferred tax assets		**11,836**	4,265
		563,719	426,905
CURRENT ASSETS			
Inventories		**25,630**	45,024
Trade and bills receivables	*10*	**391,430**	405,176
Prepayments, deposits and other receivables		**14,838**	29,975
Prepaid tax		**2,944**	–
Restricted bank deposits and balances	*11*	**66,533**	67,200
Bank deposits with original maturity more than three months	*11*	**–**	44,680
Bank deposits, bank balances and cash	*11*	**207,249**	318,697
		708,624	910,752

		At 31 December	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
CURRENT LIABILITIES			
Trade and bills payables	*12*	**215,877**	286,179
Other payables		**50,896**	68,975
Loan from a joint venture		**28,000**	–
Contract liabilities		**400**	388
Lease liabilities		**849**	824
Bank borrowings	*13*	**172,276**	110,000
Tax liabilities		**27,332**	31,357
		495,630	497,723
NET CURRENT ASSETS		**212,994**	413,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**776,713**	839,934
CAPITAL AND RESERVES			
Share capital	*14*	**997**	997
Reserves		**754,852**	813,234
Equity attributable to owners of the Company		**755,849**	814,231
Non-controlling interest		**151**	–
		756,000	814,231
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,254**	9,125
Deferred income – government grants		**16,315**	15,585
Lease liabilities		**144**	993
		20,713	25,703
		776,713	839,934

Notes:

1. GENERAL INFORMATION

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

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

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

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS")

Amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRS Standards issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRS Standards in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to IAS 1 and IAS 8 *Definition of Material*

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to IFRS Standards in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to IFRS Standards mentioned below, the Directors anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in IFRS 3 *Business Combinations* ("**IFRS 3**") so that it refers to the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010);

- add a requirement that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform − Phase 2*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform − Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16 *Leases* ("**IFRS 16**");

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has a London Interbank Offered Rate / RMB Loan Prime Rate which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for the loan change resulting from the reform on application of the amendments.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation.*

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

3. REVENUE

The Group's revenue represents amounts received and receivable from the sale of optical fibre cables and optical distribution network devices, net of discounts, customers' returns and sales related tax, that are recognised at a point in time as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Optical fibre cables	**375,757**	502,594
Optical distribution network devices	**3,764**	31,733
	379,521	534,327

All sales of the Group's optical fibre cables and optical distribution network devices are made to customers located in the PRC.

4. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company (also general manager of the Group), being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of optical fibre cables and optical distribution network devices.

As the Group is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network devices, the Directors consider that the Group has one reportable and operating segment. As such, no segment information is presented other than the entity-wide disclosures.

Geographical information

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Bank interest income	**7,684**	9,195
Other interest income	**1,910**	3,370
Foreign exchange (losses) gain, net	**(725)**	974
Sale of electricity and gain on sales of other materials	**3,176**	1,328
Government grants recognised	**5,489**	5,523
Loss on disposal of property, plant and equipment	**(1)**	(53)
Others	**463**	39
	17,996	20,376

6. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Interest on bank borrowings	**4,950**	10,366
Interest on lease liabilities	**43**	55
	4,993	10,421

7. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")	**(3,745)**	(5,299)
Withholding tax	**(2,944)**	–
Deferred tax	**12,442**	(2,609)
	5,753	(7,908)

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate applicable to Jiangsu Nanfang Communication Technology Company Limited ("**Nanfang Communication**") and Jiangsu Yingke Communication Technology Company Limited ("**Yingke**"), subsidiaries of the Company, are recognised as "High and New Technology Enterprise" during the year. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the year (2019: 15%).

8. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**15,709**	15,702
Less: Depreciation capitalised in inventories	**(12,476)**	(12,806)
	3,233	2,896
Depreciation of right-of-use assets	**1,432**	1,198
Auditor's remuneration	**800**	1,400
Staff costs (including the Directors' remuneration):		
Salaries, wages and allowances	**35,733**	36,639
Retirement benefit scheme contributions	**1,691**	4,646
Total staff costs	**37,424**	41,285
Cost of inventories recognised as cost of sales	**340,793**	404,781

9. (LOSS) EARNINGS PER SHARE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share ((Loss) profit for the year attributable to owners of the Company)	**(19,182)**	33,856

	Year ended 31 December	
	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,120,000**	1,120,000

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

10. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**370,858**	391,067
Less: Allowance of credit losses	**(6,446)**	(5,857)
	364,412	385,210
Bills receivable *(Note)*	**27,018**	19,966
	391,430	405,176

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

The following is an ageing analysis of trade receivables, net of allowance for credit losses, presented based on invoice date:

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Less than 6 months	**344,066**	334,140
More than 6 months, but less than 1 year	**13,816**	44,800
More than 1 year	**6,530**	6,270
	364,412	385,210

According to the relevant sales agreements entered into between the Group and the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**"), 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to customers with good repayment history. The Group does not obtain collateral from customers.

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

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 4.2% per annum (2019: from 0.3% to 4.2% per annum) at the end of the reporting period.

The Group's restricted bank deposits and balances were pledged to banks for issuing bills payable and certain performance bonds at the end of the reporting period.

As at 31 December 2019, included in the Group's bank deposits with original maturity more than three months were bank deposits amounting to RMB44,680,000 which were due for withdrawal within twelve months at the end of the reporting period. As at 31 December 2020, there was no bank deposits with original maturity more than three months which were due for withdrawal within twelve months at the end of the reporting period.

As at 31 December 2020, included in the Group's bank deposits with original maturity more than three months are bank deposits amounting to RMB102,600,000 (2019: RMB98,428,000) which are due for withdrawal in January 2022 (2019: January 2022).

12. TRADE AND BILLS PAYABLES

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables	**120,914**	152,160
Bills payable	**94,963**	134,019
	215,877	286,179

The average credit period on purchases of materials was within four months upon receipts of the materials and the relevant value-added-tax invoices.

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Less than 6 months	**118,177**	145,295
More than 6 months, but less than 1 year	**453**	3,572
More than 1 year	**2,284**	3,293
	120,914	152,160

At the end of the reporting period, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's restricted bank deposits and balances.

13. BANK BORROWINGS

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Secured and guaranteed bank borrowings	**72,276**	–
Unsecured and guaranteed bank borrowings	**100,000**	110,000
	172,276	110,000

14. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 2020	8,000,000	8,000
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 2020	1,120,000	1,120

Presented in the consolidated financial statements as

	RMB'000
At 1 January 2019, 31 December 2019 and 2020	997

15. DIVIDENDS

The Directors have resolved not to declare a final dividend for the year ended 31 December 2020 (2019: final dividend of HK$0.03828 (equivalent to RMB0.035) per ordinary share, amounting to RMB39,200,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading telecommunication manufacturer in the PRC. For the year ended 31 December 2020, the Group recorded a decrease of revenue by 29.0% to approximately RMB379.5 million (2019: approximately RMB534.3 million).

During the year ended 31 December 2020, the gross profit of the Group was approximately RMB38.7 million (2019: approximately RMB129.5 million), representing a reduction of approximately 70.1%.

During the year ended 31 December 2020, the Company recorded a loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB19.2 million (2019: profit and total comprehensive income of approximately RMB33.9 million).

During the year ended 31 December 2020, the Company's basic loss per share was approximately RMB0.02 (2019: earnings per share of approximately RMB0.03).

Subscription of shares, grant of call option and acquisition of shareholder's loan of Gold Image Limited

On 18 September 2020, Century Planet Limited ("**Century Planet**"), Gold Image Limited ("**Gold Image**") and Mr. Lin Yu ("**Mr. Lin**") entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which (i) Century Planet conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue certain subscription shares at a consideration of US$9,999; (ii) Mr. Lin agreed to grant a call option to Century Planet at a consideration of US$1; and (iii) Century Planet would acquire the shareholder's loan in a sum of US$23,038,052 from Mr. Lin at a consideration of US$23,038,052.

The completion (the "**Completion**") of the transactions contemplated under the Subscription Agreement took place on 31 December 2020 in accordance with the terms and conditions of the Subscription Agreement.

For details of the Subscription Agreement and the Completion, please refer to the Company's announcements dated 18 September 2020 and 31 December 2020.

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 2020 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the year ended 31 December 2020, revenue of the Group amounted to approximately RMB379.5 million, representing a decline of 29.0% from approximately RMB534.3 million for the year ended 31 December 2019. During the Reporting Period, the Group's sales volume has increased by approximately 12% as compared to that of the previous financial year. However, due to an overall decrease in tender prices for optical fibre cables in the industry, the awarded tender prices have plummeted, thereby leading to the decrease in the Group's revenue.

Cost of sales

For the year ended 31 December 2020, cost of sales of the Group amounted to approximately RMB340.8 million, representing a decline of approximately 15.8% from approximately RMB404.8 million for the year ended 31 December 2019.

Gross profit and gross profit margin

Gross profit decreased by approximately 70.1% to approximately RMB38.7 million for the year ended 31 December 2020 from approximately RMB129.5 million for the same period in 2019. During the Reporting Period, the Group's gross profit margin was approximately 10.2% as compared to a gross profit margin of approximately 24.2% for the year ended 31 December 2019. As there was an overall decrease in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have plummeted, and the magnitude of such price drop was greater than the reduction in the costs of raw materials. Therefore, it resulted in a material impact on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

A net gain of approximately RMB20.4 million recorded for the year ended 31 December 2019 has dropped to a net gain of approximately RMB18.0 million for the same period in 2020. The decrease in net gain was mainly attributable to the decrease in interest income from approximately RMB12.6 million for the year ended 31 December 2019 to approximately RMB9.6 million for the Reporting Period.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.3 million for the year ended 31 December 2020 which rose moderately by approximately 3.5% compared to approximately RMB18.7 million for the same period in 2019. The rise in expenses was driven by the increase in the sales volume.

Administrative expenses

The Group's administrative expenses decreased by approximately 4.6% to approximately RMB39.4 million for the year ended 31 December 2020 from approximately RMB41.3 million for the year ended 31 December 2019. The decrease was attributable to reduced trip and accommodation expenses amidst the pandemic.

Research costs

The Group's research costs declined by approximately 24.5% to approximately RMB22.8 million for the year ended 31 December 2020 from approximately RMB30.2 million for the year ended 31 December 2019. The decline was mainly attributable to the completion of the 5G related projects during the Year.

Finance costs

During the year ended 31 December 2020, the Group's finance costs decreased by approximately 52.1% to approximately RMB5.0 million from approximately RMB10.4 million for the same period in 2019. The decrease was in line with the reduction in the average bank borrowings during the Year.

Share of profit (loss) of an associate

During the year ended 31 December 2020, the Group recorded a share of profit of an associate of approximately RMB0.2 million while it recognized a share of loss of approximately RMB11.0 million for the same period in 2019. The aforesaid associate is engaged in the manufacturing and sales of optical fibre. The alignment on the adjustments of the procurement price of optical fibre preforms and the selling prices of the optical fibres has improved the overall profitability.

Income tax credit (expense)

During the year ended 31 December 2020, the Group recorded an income tax credit of approximately RMB5.8 million as compared to an income tax expense of approximately RMB7.9 million incurred for the year ended 31 December 2019. The change was in line with the decrease in the Group's profits.

(Loss) profit and total comprehensive (expense) income attributable to owners of the Company

As a result of the foregoing, the Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB19.2 million for the year ended 31 December 2020 as compared to a profit and total comprehensive income of approximately RMB33.9 million generated by the Group for the same period in 2019.

Liquidity, financial and capital resources

Cash position

As at 31 December 2020, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB377.5 million (2019: approximately RMB529.0 million), representing a decrease of approximately 28.6% as compared to that as at 31 December 2019. As at 31 December 2020, the Group had restricted bank deposits and balances of approximately RMB67.7 million (2019: approximately RMB67.2 million) that were pledged to banks for issuing bills payable and certain performance bonds.

Charges on the Group's assets

As at 31 December 2020, the Group pledged certain of its bank deposits amounting to RMB150.2 million (2019: RMB55.2 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 31 December 2020, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 68.3% (2019: approximately 64.3%).

Currency risk

While the Group's operations were principally conducted 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 ultimate holding company, loan to Pacific Smart Development Limited ("**Pacific Smart**") and a bank borrowing denominated in foreign currencies. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate, and the Directors manage its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, loan to Pacific Smart, loan from a joint venture, lease liabilities and fixed rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial instruments, mainly, restricted bank balances, bank balances and variable rate bank borrowings which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team of staff responsible for determining credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss ("**ECL**") of trade, bills and other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information.

For bank deposits and balances, the management of the Group assessed that the Group's bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to either international or PRC credit-rating agencies, and ECL is insignificant.

The Group has concentration of credit risk because approximately 93.9% (2019: approximately 97.9%) of trade receivables as at 31 December 2020 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

Other than the above, the Group does not have significant concentration of credit risk.

Liquidity risk

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

Capital commitments

As at 31 December 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.1 million (2019: approximately RMB2.7 million).

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery as it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings and net proceeds from the global offering in which the Company's ordinary shares of HK$0.001 each were issued at a price of HK$1.02 each on 12 December 2016. Save as disclosed in the Company's prospectus dated 30 November 2016 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 2020, the Group had approximately 370 employees (2019: approximately 420). For the year ended 31 December 2020, the Group incurred staff costs of approximately RMB37.4 million (2019: approximately RMB41.3 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2019 and 2020.

OUTLOOK

Compared with 2019, the Group recorded a significant decrease in revenue and a net loss in 2020. The main reasons attributable to such changes included:

1. The domestic and international economies were hit hard by the sustained Novel Coronavirus ("**COVID-19**") pandemic in 2020. The Group's businesses were being greatly affected, in which the Group witnessed a slowdown in market demand and suffered from a long operation suspension in the upstream and downstream industrial chains. As the production capacity of upstream optical fibre preforms was released, the optical fibre shortage ceased, and the production capacity of optical fibre cables expanded significantly, accompanied with more vigorous competition, which led to the decrease in gross profit margin. Apart from optical fibre, the costs of all other raw materials had increased since the fourth quarter, thus rendering the Group to record a relatively greater loss.

2. The demand for optical fibre and optical fibre cables was recovered in 2020 due to the large-scale 5G construction commenced by the Major PRC Telecommunication Network Operators. However, since the production capacity previously expanded by major suppliers in the market was released intensively at a later stage, the previous shortage in optical fibres was changed to a surplus, thus resulting in a stiff competition in the market. In the centralised procurement of ordinary optical fibre cable products carried out by the Major PRC Telecommunication Network Operators in 2020, the average unit price of such products further dropped by about 30%, which indicated that it would still take some time for the industry to complete production capacity optimization and adjustment.

On 25 March 2021, the Ministry of Industry and Information Technology released the "Dual Gigabit" Network Coordinated Development Action Plan (2021–2023), which proposes that by the end of 2021, the gigabit optical fibre network will reach the capacity to cover 200 million households; the ports of 10 gigabit passive optical network (10G-PON) and above will reach the scale of over 5 million; and the number of gigabit broadband subscribers will exceed 10 million. The 5G network will basically cover areas above the county level and some key villages and towns. More than 600,000 5G base stations will be constructed, and more than 20 gigabit cities will be built. By the end of 2023, the gigabit optical fibre network will achieve the capacity to cover 400 million households, and the number of gigabit broadband subscribers will exceed 30 million. The 5G network will basically cover areas above the township level and key administrative villages, and 100 gigabit cities will be built. Currently, the Major PRC Telecommunication Network Operators are at the core of 5G industry development, and operators need to accelerate the progress that has been delayed by COVID-19 in 2021. Therefore, it is expected the Major PRC Telecommunication Network Operators will maintain a high level of capital expenditure and their demands for optical fibre and optical fibre cables will increase, thereby stimulating the prices of optical fibre and optical fibre cables to rebound from the current low levels. In the meantime, the support from national policies will facilitate 5G technology to develop at a faster pace, and it is expected that demands for optical fibre and optical fibre cables will recover in 2021.

The Group will seek further opportunities for industry chain integration and improve the capability of controlling raw material costs, thereby reinforcing the cost control to improve its competitive strengths and profitability.

The Group will further develop diversified businesses that are centered on the telecommunication industry. The "Dual Gigabit" Network Coordinated Development Action Plan (2021–2023) released by the Ministry of Industry and Information Technology encourages enterprises of optical fibre and optical fibre cables, chip components and network equipment to strengthen the technology development and to improve the manufacturing capability and the technological level in the weak links such as 5G chips, high-speed PON chips, high-speed WLAN chips, high-speed optical transceivers and high-performance components. Given the significance of high-speed optical tranceivers in the 5G construction and the promising market prospect, the Group invested approximately US$23 million in Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity as well as an enterprise that possesses the complete production chain from chips to optical tranceivers, in December 2020. The Group became the only business partner of Source Photonics Group in the optical communication industry. In the future, the Group will further develop opportunities in the optical tranceivers field independently or by collaborating with Source Photonics Group.

The outbreak of COVID-19 has not completely receded in 2021. We believe that the impact of COVID-19 on the Group's operations and future prospect will depend on how long COVID-19 will last, the regulatory policies to be implemented, and the relevant protective measures that may affect the business environment where the Group operates its businesses in. The Group will closely monitor the development of COVID-19, continuously assess its impact on the Group and adopt necessary measures to minimise the business risk.

Facing the challenges, the Group will actively participate in the optical fibre cable industry and the new hardware manufacturing segment of the telecommunication industry which cater for the needs of 5G network construction in 2021, in order to improve our competitiveness and increase our market share, and strive for satisfactory returns for its shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, the Company has maintained a sufficient public float during the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**AGM**") will be held on 25 June 2021 (Friday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2020. 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**") as its own code of conduct regarding securities transactions by the Directors. The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the year ended 31 December 2020 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (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 2020 and this results announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosures thereof.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The nomination committee of the Company (the "**Nomination Committee**") consists of three members, namely, Mr. Yu Jinlai, Mr. Lam Chi Keung and Mr. Chan Kai Wing. Mr. Yu Jinlai 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

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 22 June 2021 (Tuesday) to 25 June 2021 (Friday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 June 2021 (Monday).

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com). The Company's 2020 annual report will be despatched to the Company's shareholders on or before 29 April 2021 (Thursday) and will be available at the websites of each of the Stock Exchange and the Company.

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

Hong Kong, 30 March 2021

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.