



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

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1617)

The background of the cover features a blue-tinted image of server racks and network cables, overlaid with large, flowing, light-blue abstract shapes that create a sense of motion and connectivity.

2021 | INTERIM
REPORT

SMART LINKS START THE FUTURE
智慧聯接 啟動未來

CONTENTS

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
MANAGEMENT DISCUSSION AND ANALYSIS	4
OTHER INFORMATION	11
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	18
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	19
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	21
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	22
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	23

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Shi Ming (Chief executive officer)
Ms. Yu Rumin
Ms. Yu Ruping

Non-Executive Director

Mr. Yu Jinlai (Chairman)

Independent Non-Executive Directors

Mr. Wu Wing Kuen
Mr. Lam Chi Keung
Mr. Chan Kai Wing

COMPANY SECRETARY

Ms. Lo Moon Fong

AUTHORISED REPRESENTATIVES

Mr. Shi Ming
Ms. Lo Moon Fong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 902, 9/F, Capital Centre
151 Gloucester Road
Wan Chai, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

1 Cencun Road, Luoyang Town
Wujin District, Changzhou City
Jiangsu Province, The People's Republic of China

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.jsnfgroup.com

STOCK CODE

1617

Financial Highlights

For the six months ended 30 June 2021 (the “**Reporting Period**”), the Group’s operating results were as follows:

- Total revenue decreased by approximately 18.0% to approximately RMB164.6 million (six months ended 30 June 2020: approximately RMB200.8 million).
- Gross profit decreased by approximately 37.7% to approximately RMB12.1 million (six months ended 30 June 2020: approximately RMB19.4 million).
- Gross profit margin decreased by approximately 2.3% to approximately 7.3%.
- The recognition of one-off equity-settled share-based payment expenses of approximately RMB14.9 million (six months ended 30 June 2020: nil), which led to an increase in staff costs by approximately 85.7% to approximately RMB29.3 million (six months ended 30 June 2020: approximately RMB15.8 million).
- Loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB36.8 million (six months ended 30 June 2020: approximately RMB5.5 million), represented an increase of approximately 574.0%.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2021.

Management Discussion and Analysis

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, Nanfang Communication Holdings Limited 南方通信控股有限公司 (the “**Company**”) and its subsidiaries (the “**Group**”) recorded revenue of approximately RMB164.6 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB200.8 million), representing a decrease of approximately 18.0% as compared to the same period in 2020.

During the six months ended 30 June 2021, the gross profit of the Group was approximately RMB12.1 million (six months ended 30 June 2020: approximately RMB19.4 million), representing a decrease of approximately 37.7% as compared to the same period in 2020.

The Company granted a total of 112,000,000 share options pursuant to the share option scheme to eligible participants on 27 May 2021 to reward their contribution to the Group, to provide incentives to them to further contribute to the Group and to align their interests with that of the Group. Thus, the Company recorded one-off equity-settled share-based payment expenses amounting to approximately RMB14.9 million for the six months ended 30 June 2021. The Company did not incur such expenses in the corresponding period of last year.

During the six months ended 30 June 2021, the Group recorded a loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB36.8 million (six months ended 30 June 2020: approximately RMB5.5 million), representing an increase of approximately 574.0% as compared to the corresponding period in 2020.

During the six months ended 30 June 2021, the basic loss per share was approximately RMB0.033 (six months ended 30 June 2020: approximately RMB0.005).

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 six months ended 30 June 2021, revenue of the Group amounted to approximately RMB164.6 million, representing a decrease of approximately 18.0% from approximately RMB200.8 million for the six months ended 30 June 2020. 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 six months ended 30 June 2021, cost of sales of the Group was approximately RMB152.5 million (six months ended 30 June 2020: approximately RMB181.5 million), representing a decrease of approximately 15.9% as compared to the same period in 2020. The decrease in cost of sales during the Reporting Period was mainly due to the reduced cost of optical fibre, which is the raw material for manufacturing optical fibre cables (notwithstanding an increase in the costs of other raw materials).

Gross profit and gross profit margin

For the six months ended 30 June 2021, the Group’s gross profit was approximately RMB12.1 million (six months ended 30 June 2020: approximately RMB19.4 million), representing a decrease of approximately 37.7% as compared to the same period in 2020. During the Reporting Period, the Group’s gross profit margin was approximately 7.3% as compared to a gross profit margin of approximately 9.6% for the six months ended 30 June 2020. 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 drop in the Group’s gross profit and gross profit margin.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Other income, gains, expenses and losses, net

Net other income of approximately RMB5.2 million for the six months ended 30 June 2020 has been increased to approximately RMB8.8 million for the Reporting Period. The increase in net other income during the Reporting Period was mainly due to: (i) the bank interest income increased to approximately RMB4.9 million (six months ended 30 June 2020: approximately RMB3.3 million); and (ii) net foreign exchange gains increased to approximately RMB1.7 million (six months ended 30 June 2020: approximately RMB0.05 million).

Selling and distribution expenses

For the six months ended 30 June 2021, the Group's selling and distribution expenses were approximately RMB8.1 million (six months ended 30 June 2020: approximately RMB7.5 million), representing an increase of approximately 8.2% as compared to the same period in 2020.

Administrative expenses

For the six months ended 30 June 2021, the Group's administrative expenses were approximately RMB32.4 million (six months ended 30 June 2020: approximately RMB16.7 million). During the Reporting Period, the Company recorded one-off equity-settled share-based payment expenses of approximately RMB14.9 million, which was not incurred in the corresponding period of last year.

Research costs

The Group's research costs were approximately RMB14.8 million for the six months ended 30 June 2021 (for the six months ended 30 June 2020: approximately RMB13.2 million), representing an increase of approximately 12.5% compared to that of last year.

Finance costs

During the six months ended 30 June 2021, the Group's finance costs were approximately RMB5.6 million (six months ended 30 June 2020: approximately RMB2.3 million), representing an increase of approximately 140.8% as compared to the same period in 2020. The increase in finance costs was in line with the increase in the amount of bank borrowings of the Group.

Share of loss/profit of an associate

The Group recognised a share of loss of an associate of approximately RMB2.8 million for the six months ended 30 June 2021, as compared to a share of profit of an associate of approximately RMB5.4 million for the six months ended 30 June 2020. The associate is mainly engaged in the manufacturing and sales of optical fibre. As the procurement price of its main raw material optical fibre preforms has been reduced later than the decrease in the unit selling prices of the optical fibres products, the profitability of the associate has declined.

Income tax credit

During the six months ended 30 June 2021, the Group recorded income tax credit of approximately RMB5.8 million (six months ended 30 June 2020: approximately RMB2.0 million). The change was mainly due to the decrease in profit.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Loss and total comprehensive expense attributable to owners of the Company

As a result of the above, for the six months ended 30 June 2021, the Company recorded loss and total comprehensive expense attributable to owners of approximately RMB36.8 million (six months ended 30 June 2020: approximately RMB5.5 million), representing an increase of approximately 574.0% as compared to the same period in 2020.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

During the Reporting Period, the Group's operational and capital requirements were financed principally through share capital, reserves, bank borrowings and loan from a joint venture.

Cash and loan position

As at 30 June 2021, 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 RMB476.2 million (31 December 2020: approximately RMB377.5 million), representing an increase of approximately 26.1% as compared to that as at 31 December 2020. As at 30 June 2021, the Group had bank borrowings amounted to approximately RMB252.9 million (31 December 2020: approximately RMB172.3 million) and loan from a joint venture of approximately RMB28.0 million (31 December 2020: approximately RMB28.0 million).

As at 30 June 2021, all bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a bank borrowing of approximately RMB42.9 million (31 December 2020: approximately RMB72.3 million) which was secured by a letter of guarantee issued by a bank (which is secured by certain bank deposits of the Group), guaranteed by a director of the Company, repayable within one year and denominated in Euro. The Group's bank borrowings of approximately RMB210.0 million (31 December 2020: approximately RMB70.0 million) carry fixed interest rates ranging from 3.30% to 3.45% per annum (31 December 2020: 3.45% to 4.35%) and bank borrowings of approximately RMB42.9 million (31 December 2020: approximately RMB102.3 million) carry variable market interest rates ranging from 1.86% to 4.35% (31 December 2020: 1.86% to 4.35%) per annum.

The loan from a joint venture is unsecured, interest bearing at 4.35% per annum and repayable within one year.

Charges on the Group's assets

As at 30 June 2021, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totalling approximately RMB152.0 million (31 December 2020: approximately RMB152.0 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 30 June 2021, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 97.8% (as at 31 December 2020: 68.3%).

Management Discussion and Analysis

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (CONTINUED)

Currency risk

While the Group's operations were principally conducted in the PRC during the Reporting Period and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, and bank borrowings denominated in foreign currencies. The Company 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 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 prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

Credit risk

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 condensed 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 responsible for determination of 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 92.7% (as at 31 December 2020: approximately 93.9%) of trade receivables as at 30 June 2021 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 position 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.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (CONTINUED)

Capital commitments

As at 30 June 2021, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.4 million (as at 31 December 2020: approximately RMB1.1 million).

Employees and remuneration policies

As at 30 June 2021, the Group had approximately 320 employees (as at 30 June 2020: approximately 390). During the Reporting Period, the Group incurred staff costs of approximately RMB29.3 million (30 June 2020: approximately RMB15.8 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 prevailing market employment practices and legislations. The Group has arranged 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

In the past two years of commercialisation of 5G, the 5G convergence applications are at a critical stage of scaling up. Despite the large-scale 5G construction commenced by the Major PRC Telecommunication Network Operators, the demands for optical fibre and optical fibre cables are still insufficient compared to the past years. Furthermore, since the production capacity previously expanded by major suppliers in the market was released at a later stage, the supply and demand for optical fibre and optical fibre cables remains in a state of imbalance, thus resulting in a stiff competition in the market.

In the first half year of 2021, the Group's revenue and net profit decreased significantly compared with that of the same period in 2020, primarily due to the fact that:

1. Affected by the further decline of approximately 30% in the average unit tender prices for optical fibre cables in the industry as a result of the centralized procurement of common optical fibre cable products by the Major PRC Telecommunications Network Operators in the second half of 2020, the awarded tender prices, which have been generally applicable since the fourth quarter of 2020, significantly decreased, thereby leading to a decline in the Group's operating revenue. Therefore, it would take some time to complete the optimization and adjustment of production capacity in the industry;
2. Since the second half of 2020, especially since this year, the cost of raw materials other than optical fibres (such as non-ferrous metals, certain chemical raw materials and other bulk commodities) has continued to increase significantly, and at the same time, the Group had relatively low flexibility in the production cost of its products, coupled with the rapid decline in unit prices, thus exerting greater pressure on the profit level. As a result, the Group recorded a relatively greater loss;
3. The Company recorded one-off equity-settled share-based payment expenses of RMB14.9 million for the six months ended 30 June 2021 as a result of granting share options to eligible participants under the share option scheme on 27 May 2021. The Company did not incur such expenses in the corresponding period last year.

Management Discussion and Analysis

OUTLOOK (CONTINUED)

The Government Work Report for 2021 proposed to “increase the construction of 5G network and gigabit optical network to enrich the application scenarios”. Recently, the Ministry of Industry and Information Technology, together with nine departments including the Office of the Central Cyberspace Affairs Commission and the National Development and Reform Commission, jointly published the 5G Application “Sailing” Action Plan (2021–2023) (《5G應用「揚帆」行動計劃(2021–2023年)》), which emphasises the creation of a new ecology with the in-depth integration of IT (information technology), CT (communication technology) and OT (operation technology) to achieve a breakthrough in the depth and width of 5G applications in key areas. In respect of the quantitative development targets by 2023, it is anticipated that the penetration rate of individual 5G users will exceed 40%, with the number of users exceeding 560 million. The proportion of 5G network access traffic will exceed 50%, the number of 5G base stations per 10,000 individuals will exceed 18, over 3,000 5G industry virtual private networks will be built, and the average annual growth rate of 5G Internet of Things terminal users will exceed 200%. In vertical industries, the penetration rate of 5G applications in large industrial enterprises will exceed 35%, and 5G applications in electricity, mining and other fields will be replicated and promoted on a large scale. The scope of 5G+Internet of Vehicles pilot sites will be further expanded, thus facilitating the digital transformation and upgrade of traditional industries such as agriculture and water conservation.

Currently, the Major PRC Telecommunication Network Operators are at the core of 5G industry development. With the demands resuming growth, the industry has already experienced a shortage of optical fibre, and the supply and demand structure is expected to improve, thereby stimulating the prices of optical fibre and optical fibre cables to rebound from the current low levels. The Group will continue to seek opportunities for industry chain integration, improve the capability of controlling raw material costs, and strive to continuously optimise product mix, thereby reinforcing the cost control of the Company to improve its competitive strengths and profitability.

The Group will further develop diversified businesses that are centered on the telecommunication industry. Given the significance of high-speed optical transceivers in the 5G construction, industrial internet and big data centres as well as the promising market prospects, the Company will further accelerate its development in the optical transceivers field. 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.

USE OF PROCEEDS FROM THE GLOBAL 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 all related listing expenses and commissions, amounted to approximately HK\$248.4 million (the “**Net Proceeds**”), which 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 (the “**Prospectus**”).

As disclosed in the annual report of the Company for the year ended 31 December 2019, the announcement of the Company dated 11 August 2020 and the annual report of the Company for the year ended 31 December 2020, as at 31 December 2020:

- (i) approximately HK\$127.1 million of the Net Proceeds had been fully utilised in accordance with their intended purposes as set out in the Prospectus; and

Management Discussion and Analysis

USE OF PROCEEDS FROM THE GLOBAL OFFERING (CONTINUED)

- (ii) the remaining Net Proceeds of approximately HK\$121.3 million, which were intended to be used for constructing phase II of the Jin Tan Factory had not been fully utilised by the Group, as such construction was delayed due to the limited land pool held by the relevant government authority. As an interim measure, approximately HK\$56.1 million had been used by the Group to purchase the necessary equipment to satisfy such production plans. It was initially anticipated by the Group that (i) the acquisition of land for phase II of the Jin Tan Factory would be completed by 30 June 2021; and (ii) the construction of the office and production facilities and installation of production facilities and equipment would be completed by 30 September 2022.

Due to the limited land pool held by the relevant government authority, it was unable to grant further land for industrial use to the Group, and thus no suitable land was available for acquisition by the Group for the construction of phase II of the Jin Tan Factory. Therefore, approximately HK\$64.5 million of the Net Proceeds remain unutilised by the Group by 30 June 2021.

As disclosed in the announcement of the Company dated 6 July 2021, in light of the above circumstances and having considered other reasons set out therein, the Board resolved to reallocate the unutilised balance of the Net Proceeds in the amount of approximately HK\$64.5 million to be used as the Group's general working capital, which is expected to be fully utilised by the Group by the end of 2021. The revised use of the Net Proceeds after reallocation are set forth below:

		Intended use of Net Proceeds	Actual use of Net Proceeds utilised as at 30 June 2021	Remaining balance of Net Proceeds as at 30 June 2021	Revised use of remaining balance of Net Proceeds	Expected timeline for full utilisation of the remaining Net Proceeds
	%	HK\$'000,000	HK\$'000,000	HK\$'000,000	HK\$'000,000	
For constructing the phase II expansion plan of our Jin Tan Factory	48.9	121.3	56.8	64.5	-	-
For upstream development or acquisition of the optical fibre cable production value chain	28.5	70.8	70.8	-	-	-
For research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment	10.1	25.0	25.0	-	-	-
For repaying parts of the bank loans drawn down from a financial institution	6.1	15.1	15.1	-	-	-
For additional working capital and other general corporate purpose	6.5	16.2	16.2	-	64.5	By 31 December 2021
Total	100**	248.4	183.9	64.5	64.5	

** The aggregate of the percentage figures in the table above may not add up to the relevant "Total" percentage figures shown due to rounding of the percentage figures to one decimal place.

Please refer to the announcements of the Company dated 11 August 2020 and 6 July 2021 for further details regarding the changes in the use of proceeds and the expected timeline for the utilisation of the unutilised proceeds.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares or underlying shares held ⁽¹⁾	Approximate % of shareholding
Ms. Yu Rumin ⁽²⁾	Founder of a discretionary trust	840,000,000 (L)	68.18
Mr. Yu Jinlai ⁽³⁾	Beneficiary of a discretionary trust	840,000,000 (L)	68.18
Ms. Yu Ruping ⁽³⁾	Beneficiary of a discretionary trust	840,000,000 (L)	68.18
Mr. Shi Ming ⁽⁴⁾	Interest of spouse	840,000,000 (L)	68.18

Notes:

⁽¹⁾ The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.

⁽²⁾ Pacific Mind Development Limited ("**Pacific Mind**") owned 840,000,000 Shares, representing 68.18% of the total number of the issued shares of the Company (the "**Shares**") as at 30 June 2021. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee, holding the entire issued share capital of Pacific Mind for UBS TC (Jersey) Limited ("**Trustee**"). The Trustee is a trustee of a discretionary trust ("**Family Trust**") set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries. Ms. Yu Rumin as founder of the Family Trust is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of Part XV of the SFO.

⁽³⁾ The Shares were held by Pacific Mind in the capacity of a legal beneficial owner. Since each of Mr. Yu Jinlai and Ms. Yu Ruping is a beneficiary of the Family Trust, each of Mr. Yu Jinlai and Ms. Yu Ruping was deemed to be interested in the shares held by Pacific Mind under the SFO.

⁽⁴⁾ Mr. Shi Ming is the spouse of Ms. Yu Rumin and is therefore deemed under the SFO to be interested in the shares held by Ms. Yu Rumin.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 30 June 2021, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Interests in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares or underlying shares held ⁽¹⁾	Approximate % of shareholding
Pacific Mind Development Limited	Beneficial owner	840,000,000 (L)	68.18
UBS TC (Jersey) Limited ⁽²⁾	Trustee	840,000,000 (L)	68.18
UBS Nominee Limited ⁽²⁾	Interested in controlled corporation	840,000,000 (L)	68.18
Ms. Zhu Qinying ⁽³⁾	Interest of spouse	840,000,000 (L)	68.18
Mr. Yu Jianguang ⁽⁴⁾	Interest of spouse	840,000,000 (L)	68.18

Notes:

- ⁽¹⁾ The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.
- ⁽²⁾ Pacific Mind owned 840,000,000 Shares, representing 68.18% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee holding the entire issued share capital of Pacific Mind for the Trustee in respect of the Family Trust. The Trustee is a trustee of the Family Trust set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries.
- ⁽³⁾ Ms. Zhu Qinying is the spouse of Mr. Yu Jinlai and it therefore deemed under the SFO to be interested in the shares held by Mr. Yu Jinlai.
- ⁽⁴⁾ Mr. Yu Jianguang is the spouse of Ms. Yu Ruping and it therefore deemed under the SFO to be interested in the shares held by Ms. Yu Ruping.

Save as disclosed above, as at 30 June 2021, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to written resolutions passed on 24 November 2016, the Company adopted a share option scheme (the “**Share Option Scheme**”). The Share Option Scheme is valid for a period of 10 years commencing on 24 November 2016. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of Directors may, at its discretion, grant options to subscribe for shares of the Company to eligible participants (“**Eligible Participants**”) who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity (“**Invested Entity**”) in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

The maximum entitlement of each Eligible Participant under the Share Option Scheme shall be:

- (a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to an Eligible Participant under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant is subject to the shareholders’ approval; and
- (b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s ordinary shares at the date of the grant) in excess of HK\$5,000,000, within any twelve-month period, are subject to shareholders’ approval in advance in a general meeting.

Other Information

SHARE OPTION SCHEME (CONTINUED)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's ordinary shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's ordinary shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares on the date of the offer.

Movements in the share options granted and exercised during the Reporting Period were as follows:

Category of grantees	Date of grant (Note 1)	Validity period (exercise period)	Exercise price per Share	As at 1 January 2021	Number of options granted during the Reporting Period	Number of options exercised during the Reporting Period (Note 2)	As at 30 June 2021
Employees of the Group	27 May 2021	27 May 2021 to 26 May 2031	HK\$0.342	-	112,000,000	(112,000,000)	-
Total				-	112,000,000	(112,000,000)	-

Notes:

1. The closing price immediately before the date of grant was HK\$0.340 per share.
2. The weighted average closing price immediately before the date of exercise was HK\$0.330 per share.
3. The share options listed above do not have any vesting period.
4. During the Reporting Period, no share options under the Scheme were cancelled or lapsed.

Equity-settled share-based payment expenses of approximately RMB14,934,000 (six months ended 30 June 2020: not applicable) were recognised during the Reporting Period.

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 2021 and up to the date of this report.

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 2021. 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 2021.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules 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.

The Audit Committee has, together with the management of the Company, reviewed this interim report. The condensed consolidated interim results contained in this report have not been audited by the Company’s auditors.

CONTINGENT LIABILITIES AND LITIGATION

The Group did not have any contingent liabilities and litigation as at the date of this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts on the environment by its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report issued by the Company on 27 July 2021.

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivating workplace for its employees, produce quality products to satisfy its customers’ expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report dated 27 July 2021.

Other Information

COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2021, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group held the following significant investments:

1. Jiangsu Nanfang Communication Technology Company Limited* (江蘇南方通信科技有限公司) ("**Nanfang Communication**"), holds 49% of the shareholding in Jiangsu Nanfang Optic Electric Technology Company Limited* (江蘇南方光纖科技有限公司) ("**Nanfang Optic**"), and made a total investment of approximately RMB73.5 million up to 30 June 2021. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 30 June 2021 as this is a private company. The investment is intended to be held for a long term. During the Reporting Period, the Group (i) shared an associated loss of approximately RMB2.8 million; and (ii) did not receive any dividend in respect of its investment in Nanfang Optic.
2. Nanfang Communication also holds 51% of the shareholding in Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司) ("**Yingke Optical Material**"), and made a total investment of approximately RMB76.5 million up to 30 June 2021. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 30 June 2021 as this is a private company. The investment is intended to be held for a long term. During the Reporting Period, the Group (i) shared a profit of approximately RMB0.3 million; and (ii) did not receive any dividend in respect of its investment in Yingke Optical Material.
3. Pacific Smart Development Limited, an indirectly non-wholly owned subsidiary of the Company, owned 8,095,527 class A preferred shares of Venus Pearl SPV2 Co Limited, representing approximately 4.59% of its total issued share capital, with a total investment of approximately US\$23,048,052 contributed by the Group up to 30 June 2021. Venus Pearl SPV2 Co Limited is a company incorporated in the Cayman Islands which is principally engaged in investment holding. The fair value of the investment was approximately RMB151,599,000 as at 30 June 2021, representing approximately 10.0% of the total assets of the Group. During the Reporting Period, the Group had not received any dividend or recorded any investment gain/loss. The investment is intended to be a long term investment in view of the positive business synergies to be generated in the long run between the Company and Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity that is wholly owned by Venus Pearl SPV2 Co Limited.

Save as aforesaid, the Company did not hold any other significant investments during the Reporting Period.

* For identification purpose only

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings and net proceeds from the global offering. Save as disclosed in this interim report, the Group did not have any future plans for material investments as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

During the six months ended 30 June 2021, the Group had no material acquisition or disposal of its subsidiaries, associated companies and joint ventures.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group has occurred since the end of the six months ended 30 June 2021 and up to the date of this report.

PUBLICATION OF THE INTERIM REPORT

This interim report is published on the websites of each of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

For and on behalf of the Board

Nanfang Communication Holdings Limited

Yu Jinlai

Chairman

Hong Kong, 30 August 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	3, 4	164,586	200,823
Cost of sales		(152,534)	(181,470)
Gross profit		12,052	19,353
Other income, gains, expenses and losses, net	5	8,822	5,222
Selling and distribution expenses		(8,101)	(7,484)
Administrative expenses		(32,401)	(16,665)
Research costs		(14,838)	(13,195)
Finance costs	6	(5,611)	(2,330)
Share of (loss)/profit of an associate		(2,824)	5,401
Share of profit of a joint venture		286	2,218
Loss before tax	8	(42,615)	(7,480)
Income tax credit	7	5,792	2,017
Loss and total comprehensive expense for the period		(36,823)	(5,463)
Loss per share	9		
– Basic		RMB(0.033)	RMB(0.005)

Condensed Consolidated Statement of Financial Position

As at 30 June 2021

		As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	91,913	97,167
Right-of-use assets		29,347	30,159
Interest in an associate		85,654	88,470
Interest in a joint venture		80,331	80,045
Financial asset at fair value through profit or loss ("FVTPL")		151,599	151,599
Prepayments for acquiring property, plant and equipment and prepaid expenses		-	701
Restricted bank deposits and balances	13	-	1,142
Bank deposits with original maturity more than three months		-	102,600
Deferred tax assets		17,631	11,836
		456,475	563,719
CURRENT ASSETS			
Inventories		38,189	25,630
Trade and bills receivables	12	530,364	391,430
Prepayments, deposits and other receivables		10,394	14,838
Prepaid tax		2,944	2,944
Restricted bank deposits and balances	13	67,565	66,533
Bank deposits with original maturity more than three months		104,525	-
Bank deposits, bank balances and cash		304,065	207,249
		1,058,046	708,624
CURRENT LIABILITIES			
Trade payables	14	94,312	120,914
Bills payable	15	262,347	94,963
Other payables		68,006	50,896
Loan from a joint venture		28,000	28,000
Contract liabilities		321	400
Lease liabilities		572	849
Bank borrowings	16	252,889	172,276
Tax liabilities		21,957	27,332
		728,404	495,630

Condensed Consolidated Statement of Financial Position

As at 30 June 2021

	<i>Notes</i>	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
NET CURRENT ASSETS		329,642	212,994
TOTAL ASSETS LESS CURRENT LIABILITIES		786,117	776,713
CAPITAL AND RESERVES			
Share capital	17	1,090	997
Reserves		764,421	754,852
Equity attributable to owners of the Company		765,511	755,849
Non-controlling interest		151	151
		765,662	756,000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		4,254	4,254
Deferred income – government grants		16,201	16,315
Lease liabilities		–	144
		20,455	20,713
		786,117	776,713

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the Company					Sub-Total	Non-controlling interest	Total
	Share capital	Share premium	Other reserve <i>(Note (b))</i>	Surplus reserve <i>(Note (a))</i>	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2021 (Unaudited)								
As at 1 January 2021 (Audited)	997	214,255	113,295	67,607	359,695	755,849	151	756,000
Loss and total comprehensive expense for the period	-	-	-	-	(36,823)	(36,823)	-	(36,823)
Shares issued upon the exercise of share options <i>(Note 18)</i>	93	46,392	-	-	-	46,485	-	46,485
As at 30 June 2021 (Unaudited)	1,090	260,647	113,295	67,607	322,872	765,511	151	765,662
For the six months ended 30 June 2020 (Unaudited)								
As at 1 January 2020 (Audited)	997	214,255	113,295	66,782	418,902	814,231	-	814,231
Loss and total comprehensive expense for the period	-	-	-	-	(5,463)	(5,463)	-	(5,463)
Dividend	-	-	-	-	(39,200)	(39,200)	-	(39,200)
As at 30 June 2020 (Unaudited)	997	214,255	113,295	66,782	374,239	769,568	-	769,568

Notes:

- (a) As stipulated by the relevant laws and regulations, the Company's subsidiaries in the People's Republic of China (the "PRC") are required to maintain a statutory surplus reserve which is non-distributable. Appropriations to such reserve is made out of net profit after tax of the financial statements of these subsidiaries while the amounts and allocation basis are decided by their boards of directors annually, until the reserve balance reaches 50% of their registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these subsidiaries, provided that such fund is maintained at a minimum of 25% of their registered capital.
- (b) Pursuant to deeds dated 29 September 2016, shareholders of the Company's ultimate holding company agreed to waive and release all repayment obligations in respect of the amounts of United States Dollars ("US\$") 500,000 and Hong Kong Dollars ("HK\$") 128,200,000 (equivalent to RMB113,295,000 in aggregate) advanced by them to Century Planet Limited, the Company's direct wholly owned subsidiary, for paying up the registered capital of its indirect wholly owned subsidiary, MacroSmart Investment Limited.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(12,323)	(107,288)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and right-of-use assets	(2,113)	(6,117)
(Increase)/decrease in bank deposits with original maturity more than three months, net	(1,925)	42,684
Withdrawal of restricted bank deposits and balances	110	–
Interests received	4,888	–
Government grants received	281	–
NET CASH GENERATED FROM INVESTING ACTIVITIES	1,241	36,567
FINANCING ACTIVITIES		
Proceeds from bank borrowings	150,000	20,000
Repayments of bank borrowings	(66,902)	(70,000)
Payment of interest expense on bank borrowings	(5,546)	(2,330)
Payment of lease liabilities	(433)	–
Proceeds from shares issued upon exercise of share options	31,551	–
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	108,670	(52,330)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	97,588	(123,051)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	207,249	318,697
Effect of exchange rate changes on the balance of cash held in foreign currencies	(772)	52
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by:		
Bank balances and cash	304,065	195,698

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as appropriate.

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 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the Reporting Period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 16	Covid-19-Related Rent Concessions

The application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial position and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

Sales of the Group’s optical fibre cables and optical distribution network devices are principally made to customers located in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

3. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables and optical distribution network devices to the three state-owned telecommunication network operators in the PRC (the “**Major PRC Telecommunications Network Operators**”) and other companies according to the relevant sales agreements. Revenue is recognised when control of optical fibre cables and optical distribution network devices has been transferred, being when they have been delivered to the customers’ specific locations based on the quantity of optical fibre cables and optical distribution network devices received by the customers. A receivable is recognised by the Group 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. No provision for returns of optical fibre cables and optical distribution network devices is set out in the relevant sales agreements, unless they could be replaced if quality problems are found. The customers have neither rights of return nor rights to defer or avoid payment for the goods once the goods are received by the customers. The Group usually issues invoices in six months after completion of delivery of goods. According to the relevant sales agreements entered into between the Group and 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 other customers with good repayment history. The Group does not obtain collateral from customers.

4. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company (also general manager of the Group), being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of optical fibre cables 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 operating segment information is presented other than the entity-wide disclosures.

Geographical information

The Group’s operations are principally conducted in the PRC and the majority of its non-current assets are situated in the PRC.

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

	Six months ended 30 June	
	2021 RMB’000 (Unaudited)	2020 RMB’000 (Unaudited)
Bank interest income	4,888	3,260
Foreign exchange gains, net	1,713	52
Gain on sales of other materials	1,823	1,544
Government grants recognised	395	702
Change in fair value of derivative financial instruments	–	(400)
Others	3	64
	8,822	5,222

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	5,599	2,305
Interest on lease liabilities	12	25
	<u>5,611</u>	<u>2,330</u>

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	(4)	(793)
– Deferred tax	5,796	2,810
	<u>5,792</u>	<u>2,017</u>
Total income tax credited in profit or loss	<u>5,792</u>	<u>2,017</u>

No provision for income taxes of the Company and its certain subsidiaries was made as they did not earn assessable profit during the Reporting Period (six months ended 30 June 2020: (unaudited) Nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, Jiangsu Nanfang Communication Technology Company Limited ("Nanfang Communication") and Jiangsu Yingke Communication Technology Company Limited ("Yingke"), being subsidiaries of the Company, are recognised as "High and New Technology Enterprise" and are entitled to a reduced EIT rate of 15% for the Reporting Period (six months ended 30 June 2020: (unaudited) 15%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

8. LOSS BEFORE TAX

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	7,430	7,828
Less: Depreciation capitalised in inventories	(6,455)	(6,294)
	<u>975</u>	<u>1,534</u>
Depreciation of right-of-use assets	414	767
Staff costs (including the Directors' remuneration):		
– Salaries, wages and allowances	12,411	14,614
– Retirement benefit scheme contributions	1,989	1,182
– Equity-settled share-based payment expenses (Note 18)	14,934	–
Total staff costs	<u>29,334</u>	<u>15,796</u>
Cost of inventories recognised as cost of sales	<u>152,534</u>	<u>181,470</u>

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Loss		
Loss for the purpose of basic loss per share	<u>(36,823)</u>	<u>(5,463)</u>

	Six months ended 30 June	
	2021 '000 (Unaudited)	2020 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of loss per share	<u>1,132,376</u>	<u>1,120,000</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

9. LOSS PER SHARE (CONTINUED)

The diluted loss per share for the six months ended 30 June 2021 was the same as the basic loss per share presented as there was no dilutive effect from the assumed exercise of share options on the loss attributable to owners of the Company (six months ended 30 June 2020: (unaudited) no diluted loss per share is presented as there was no potential ordinary shares outstanding).

10. DIVIDEND

No dividend was paid, declared or proposed during the Reporting Period (six months ended 30 June 2020: (unaudited) a final dividend of HK\$0.03828 (equivalent to RMB0.035) per ordinary share was declared to the shareholders of the Company).

The Directors have resolved not to declare an interim dividend for the Reporting Period (six months ended 30 June 2020: (unaudited) Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment of approximately RMB2.1 million (six months ended 30 June 2020: (unaudited) approximately RMB3.5 million).

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Trade receivables	381,647	370,858
Less: Allowance of credit losses	(6,446)	(6,446)
	375,201	364,412
Bills receivables (Note)	155,163	27,018
	530,364	391,430

Note: At the end of the Reporting Period, the Group's bills receivables were issued by banks and customers with maturity within six months.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

12. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Less than 6 months	340,816	344,066
More than 6 months, but less than 1 year	30,686	13,816
More than 1 year	3,699	6,530
	375,201	364,412

According to the relevant sales agreements entered into between the Group and 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.

13. RESTRICTED BANK DEPOSITS AND BALANCES

As at 31 December 2020 and 30 June 2021, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable and certain performance bonds.

14. 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:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Less than 6 months	89,734	118,177
More than 6 months, but less than 1 year	1,037	453
More than 1 year	3,541	2,284
	94,312	120,914

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

15. BILLS PAYABLE

As at 31 December 2020 and 30 June 2021, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's certain restricted bank deposits and balances.

16. BANK BORROWINGS

As at 30 June 2021, all bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a bank borrowing of approximately RMB42.9 million (31 December 2020: approximately RMB72.3 million) which was secured by a letter of guarantee issued by a bank (which is secured by certain bank deposits of the Group), guaranteed by a director of the Company, repayable within one year and denominated in Euro. The Group's bank borrowings of approximately RMB210.0 million (31 December 2020: approximately RMB70.0 million) carry fixed interest rates ranging from 3.30% to 3.45% per annum (31 December 2020: 3.45% to 4.35%) and bank borrowings of approximately RMB42.9 million (31 December 2020: approximately RMB102.3 million) carry variable market interest rates ranging from 1.86% to 4.35% (31 December 2020: 1.86% to 4.35%) per annum.

17. SHARE CAPITAL

	As at 30 June 2021 HK'000 (Unaudited)	As at 31 December 2020 HK'000 (Audited)
Authorised		
8,000,000,000 ordinary shares of HK\$0.001 each	8,000	8,000
	RMB'000 (Unaudited)	RMB'000 (Audited)
Issued and fully paid		
1,232,000,000 (as at 31 December 2020: 1,120,000,000) ordinary shares of HK\$0.001 each	1,090	997

A summary of the movement in the Company's share capital during the Reporting Period is as follows:

	Number of issued shares '000	Issued share capital HK\$'000	Issued share capital RMB'000
As at 1 January 2020 (Audited), 31 December 2020 (Audited) and 1 January 2021 (Audited)	1,120,000	1,120	997
Shares issued upon the exercise of share options (Note 18)	112,000	112	93
As at 30 June 2021 (Unaudited)	1,232,000	1,232	1,090

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

18. SHARE-BASED PAYMENT

The Company operates a share option scheme (the “Scheme”). The maximum term of the options granted is 10 years from the date of the offer. The exercise price of the options granted is set as the highest of (i) the closing price as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price as stated in the daily quotations sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of HK\$0.001 per share. The Scheme is deemed to be an equity-settled share based remuneration scheme. Movements in the number of share options outstanding under the Scheme during the Reporting Period are as follows:

	Six months ended 30 June 2021	
	Exercise price	Number of
	HK\$	share options
	(Unaudited)	'000
		(Unaudited)
Outstanding at the beginning of the period		–
Granted during the period	0.342	112,000
Exercised during the period	0.342	(112,000)
Outstanding at the end of the period		–

All the share options granted under the Scheme during the Reporting Period were granted on 27 May 2021, which were exercisable from 27 May 2021 to 26 May 2031 by the relevant grantees (all being employees of the Group). All such options were exercised and the closing price on the date of exercising such options was HK\$0.330 (six months ended 30 June 2020: not applicable). The fair value of each of such options was HK\$0.162 (six months ended 30 June 2020: not applicable), which was determined based on the following information:

	As at 27 May
	2021
	(Unaudited)
Option pricing model used	Binomial lattice
Closing price at grant date	HK\$0.340
Exercise price	HK\$0.342
Contractual life	10 years
Expected volatility	57.94%
Expected dividend rate	0.00%
Risk-free interest rate	1.17%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the remaining life of the share options.

The calculation results of the value of the share options are subject to a number of assumptions and the limitation of the model adopted. Hence, the estimated value of the share options may be subjective and is subject to uncertainties.

Equity-settled share-based payment expenses of approximately RMB14,934,000 (six months ended 30 June 2020: not applicable) were recognised during the Reporting Period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and input used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Fair value measurement

	As at 30 June 2021 (Unaudited)		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial asset at FVTPL			
Unlisted equity investment	–	–	151,599
	<hr/>	<hr/>	<hr/>
	As at 31 December 2020 (Audited)		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial asset at FVTPL			
Unlisted equity investment	151,599	–	–
	<hr/>	<hr/>	<hr/>

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	2021 RMB'000	2020 RMB'000
Balance as at 1 January (Audited)	–	–
Transfer in	151,599	–
	<hr/>	<hr/>
Balance as at 30 June (Unaudited)	151,599	–
	<hr/>	<hr/>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Transfer between Level 1 and Level 3

Due to change in market condition, quoted prices in active markets were no longer available for the unlisted equity investment. Therefore, the unlisted equity instrument was transferred from Level 1 to Level 3 of the fair value hierarchy as at the end of the Reporting Period.

The fair value of unlisted equity investment was determined based on transaction price and factors or events that have occurred after the acquisition date. Since there was no significant change in market condition or the performance and operation of the investment, the Directors considered the fair value of the unlisted equity investment was approximately the transaction price.

20. CAPITAL COMMITMENTS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	1,372	1,070

21. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	Six months ended 30 June 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Sales of other materials to an associate	2,108	1,183
Purchases of optical fibre and other materials from an associate	46,876	90,791

The above transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and are conducted in accordance with the terms of the relevant agreements.

Besides, the remuneration of Directors and other members of key management during the period were as follows:

	Six months ended 30 June 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Short-term benefits	2,744	2,349
Post-employment benefits	237	73
	2,981	2,422