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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Total revenue increased by approximately 31.5% to approximately RMB805.9 million (2015: approximately RMB612.6 million).
- Gross profit increased by approximately 49.4% to approximately RMB182.3 million (2015: approximately RMB122.0 million).
- Gross profit margin increased by approximately 2.7% to approximately 22.6%.
- Profit and total comprehensive income for the year attributable to owners of the Company increased by approximately 38.6% to approximately RMB100.0 million (2015: approximately RMB72.2 million).
- The Board recommended the payment of a final dividend of HK₵2.7 per ordinary share out of the Company's share premium, which is subject to approval by shareholders of the Company and compliance with the Companies Law of the Cayman Islands.

The board of directors (the "**Board**") of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the "**Company**") is pleased to announce the following audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016 together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Revenue	*3,4*	**805,921**	612,637
Cost of sales		**(623,660)**	(490,660)
Gross profit		**182,261**	121,977
Other income, gains, expenses and losses, net	*5*	**206**	(656)
Selling and distribution expenses		**(10,580)**	(8,976)
Administrative expenses		**(25,824)**	(16,488)
Listing expenses		**(22,381)**	–
Research costs		**(27,360)**	(20,101)
Finance costs	*6*	**(5,096)**	(8,542)
Share of results of an associate		**23,360**	14,478
Profit before tax	*8*	**114,586**	81,692
Income tax expense	*7*	**(14,553)**	(9,538)
Profit and total comprehensive income for the year		**100,033**	72,154
Profit and total comprehensive income for the year attributable to:			
Owners of our Company		**100,033**	72,154
Non-controlling interests		**–**	–
		100,033	72,154
Earnings per share			
– Basic	*9*	**RMB 0.12**	RMB 0.09
– Diluted	*9*	**RMB 0.12**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**84,556**	83,063
Prepaid lease payments		**12,820**	1,313
Interest in an associate		**91,554**	91,571
Prepayments for property, plant and equipment and prepaid lease payments		**6,846**	12,452
Deferred tax assets		**5,578**	1,411
		201,354	189,810
CURRENT ASSETS			
Inventories		**57,304**	52,556
Trade receivables	*10*	**484,063**	443,688
Bills receivable	*11*	**267**	4,381
Prepaid lease payments		**258**	29
Prepayments, deposits and other receivables		**36,547**	24,930
Available-for-sale investments		**230**	230
Restricted bank balances	*12*	**119,386**	135,362
Bank balances and cash		**438,540**	190,641
		1,136,595	851,817
CURRENT LIABILITIES			
Trade payables	*14*	**200,589**	235,403
Bills payable	*15*	**195,273**	239,082
Advances from customers and other payables		**97,414**	86,798
Borrowings	*13*	**118,877**	129,000
Current income tax liabilities		**36,754**	19,997
		648,907	710,280
NET CURRENT ASSETS		**487,688**	141,537
TOTAL ASSETS LESS CURRENT LIABILITIES		**689,042**	331,347
CAPITAL AND RESERVES			
Share capital/Paid-in capital	*16*	**997**	108,900
Reserves		**676,854**	222,447
Equity attributable to owners of the Company		**677,851**	331,347
Non-controlling interests		**–**	–
TOTAL EQUITY		**677,851**	331,347
NON-CURRENT LIABILITIES			
Deferred revenue		**11,191**	–
		689,042	331,347

Notes:

1. GENERAL AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

(i) Incorporation of the Company

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

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

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

(iii) Incorporation of Nanfang Hong Kong by Century Planet

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

(iv) Establishment of MacroSmart

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

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

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

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

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

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

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

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

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

The Group's consolidated statement of financial position as at 31 December 2015 has been prepared to present the assets and liabilities of the companies comprising the Group as on that date as if the current group structure had been in existence on that date, taking into account the respective dates of incorporation/establishment, where applicable.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has consistently applied International Financial Reporting Standards ("**IFRSs**"), International Accounting Standards ("**IASs**"), amendments and interpretations issued by the International Accounting Standards Board ("**IASB**") which are effective for annual accounting periods beginning on 1 January 2016 throughout the years reported.

The Group has not early applied the following new standards and amendments that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
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 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as disclosed below, the application of the new and revised IFRSs issued but not yet effective will have no material impact on the Group's financial performance and positions and/or the disclosures when they become effective.

IFRS 9 *Financial Instruments*

IFRS 9 introduced new requirements for the classification and measurement of financial assets, liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Based on the assessment so far, the Directors do not expect the adoption of IFRS 15 would result in significant impact on its revenue recognition, however, may result in additional disclosures.

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

Geographical information

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

Major customers

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Customer A	**382,604**	118,304
Customer B	**373,380**	406,386
Customer C	***N/A**	65,919

* Revenue from this customer for the year ended 31 December 2016 was less than 10% of the Group's total sales and therefore it was not included in the table above.

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income	**2,727**	1,702
Foreign exchange gains, net	**542**	–
Loss on sales of other materials	**(187)**	(1,043)
Allowance for impairment of trade receivables	**(3,027)**	(1,121)
Government grant recognised	**229**	–
Others	**(78)**	(194)
	206	(656)

6. FINANCE COSTS

The amount represents interest on bank and other loans.

7. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("EIT")		
– Current tax	**18,720**	9,932
– Deferred tax	**(4,167)**	(394)
Total income tax recognised in profit or loss	**14,553**	9,538

No provision for income taxes of the Company, Century Planet, Nanfang Hong Kong and MacroSmart in respect of the Cayman Islands, BVI and Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the year (2015: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate applicable to Yingke was 25% for the year (2015: 25%) while Nanfang Communication is recognised as a "High and New Technology Enterprise" and is entitled to a reduced EIT rate of 15% for the year (2015: 15%) pursuant to the relevant regulations.

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**7,518**	3,848
Release of prepaid lease payments	**258**	29
Auditors' remuneration	**680**	–
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**30,211**	21,971
Retirement benefit scheme contributions	**2,424**	1,207
Total staff cost	**32,635**	23,178
Allowance for impairment of trade receivables	**3,027**	1,121
Cost of inventories recognised as cost of sales	**623,660**	490,660

9. EARNINGS PER SHARE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**100,033**	72,154

	Year ended 31 December	
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic and diluted earnings per share	**855,301**	840,000

The calculation of basic earnings per share for the year ended 31 December 2015 is based on 840,000,000 shares which were issued immediately after the Capitalisation Issue (as defined in note 16(c) below) and deemed to have been issued since 1 January 2015.

During the year ended 31 December 2016, the effect of the over-allotment option in relation to the Global Offering on diluted earnings per share is insignificant.

No diluted earnings per share is presented for the year ended 31 December 2015 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

10. TRADE RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**490,236**	446,834
Less: Allowance of doubtful debts	**(6,173)**	(3,146)
	484,063	443,688

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 6 months	**397,376**	336,502
More than 6 months, but less than 1 year	**59,866**	83,247
More than 1 year	**26,821**	23,939
	484,063	443,688

For the year ended 31 December 2016, 99.8% (2015: 95.4%) of the Group's sales of optical fibre cables and other materials were made to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and the remainder was made to other third parties. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% to 90% payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in 12 months, in general, upon acceptance of goods with the remainder to be paid in the next six months. In addition, the Group granted credit periods of not more than one year to those long standing third party customers with a good repayment history. The Group does not obtain collateral from customers.

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 6 months	**7,330**	19,447
More than 6 months, but less than 1 year	**3,573**	5,613
More than 1 year	**3,580**	10,913
	14,483	35,973

The management assessed at end of the reporting period whether there is objective evidence that trade receivables are impaired. The Group would provide for individual receivable that were considered to be impaired based on management assessment performed at the end of the reporting period.

Movement in the allowance of doubtful debts are set out as follows:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
At the beginning of the year	**3,146**	2,025
Provided during the year	**3,027**	1,121
At the end of the year	**6,173**	3,146

Certain bank borrowings as at 31 December 2015 were secured by rights on trade receivables of the Group.

11. BILLS RECEIVABLE

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

12. RESTRICTED BANK BALANCES

As at 31 December 2015 and 2016, the Group's restricted bank balances were pledged to banks for issuing bills payable.

13. BORROWINGS

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank loans		
– Unsecured	**60,877**	33,000
– Unsecured with guarantees *(Note (a))*	**58,000**	68,000
– Secured with guarantees *(Note (b))*	**–**	20,000
Other loan, unsecured *(Note (c))*	**–**	8,000
	118,877	129,000

The above bank loans are repayable within one year from the end of the reporting period whereas the above other loan is repayable on demand.

Notes:

(a) As at 31 December 2016, the repayment of these bank loans is guaranteed by Yingke at nil consideration.

As at 31 December 2015, included in these bank loans were amounts of RMB48,000,000 that their repayment were guaranteed by group companies. The repayment of the remaining bank loan was jointly and severally guaranteed by Mr. Yu, 常州精科實業有限公司 ("**Jing Ke**"), which is controlled by Mr. Yu and his spouse, Ms. Yu RP, Ms. Yu and Mr. Shi at nil consideration.

(b) As at 31 December 2015, the bank loan was secured by certain trade receivables of the Group and its repayment was jointly and severally guaranteed by Mr. Yu, Jing Ke, Ms. Yu RP, Ms. Yu and a group company at nil consideration. The bank loan was fully repaid in June 2016.

(c) The other loan was unsecured, bore a fixed interest rate at 3.3% per annum and was fully repaid in June 2016.

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:

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 6 months	**196,650**	203,711
More than 6 months, but less than 1 year	**1,014**	28,371
More than 1 year	**2,925**	3,321
	200,589	235,403

Included in trade payables are amounts due to an associate of RMB103,503,000, (2015: RMB86,748,000) as at 31 December 2016. The amounts due to the associate were unsecured, interest-free and payable according to the relevant purchase agreements.

15. BILLS PAYABLE

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

16. SHARE CAPITAL/PAID-IN CAPITAL

The paid-in capital of the Group at 31 December 2015 represented the amount of the paid-in capital of Nanfang Communication.

The share capital of the Group at 31 December 2016 represented the share capital of the Company.

	'000	*HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
On 10 May 2016 (date of incorporation) *(Note (a))*	380,000	380
Increase on 24 November 2016 *(Note (b))*	7,620,000	7,620
At 31 December 2016	8,000,000	8,000
Issued and fully paid:		
On 10 May 2016 (date of incorporation) *(Note (a))*	–	–
Issue of ordinary shares upon capitalisation of share premium *(Note (c))*	840,000	840
Issue of ordinary shares *(Note (d))*	280,000	280
At 31 December 2016	1,120,000	1,120

Presented in the consolidated financial statements as

	RMB'000
At 31 December 2016	997

Notes:

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

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

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

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

17. DIVIDEND

The Board recommended the payment of a final dividend of HK₵2.7 per ordinary share for the year ended 31 December 2016 to shareholders of the Company out of the Company's share premium, which is subject to approval by shareholders of the Company and compliance with the Companies Law of the Cayman Islands.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In 2016, the "Broadband China" Strategic Implementation Plan and the Twelfth Five-Year Plan of the Communication Industry were major drivers that generated investments in network construction and upgrades of the broadband telecommunications networks and infrastructure, all of which drove the demand for optical fibre cables. In 2017, the "Broadband China" Strategic Implementation Plan and "Internet Plus" ("互聯網+") initiative are still continuing. Together with the launch of Thirteenth Five-Year Plan of the Communication Industry, these government policies and plans will accelerate the integration of information and communication technologies and industry, as well as promote industrial upgrade, which in turn will stimulate the demand for optical fibre cables as optical fibre cables would be used for the construction of the high-speed broadband network infrastructure. As a result, we expect that the demand for optical fibre cables in 2017 in the PRC will remain promising in view of the development of the optical broadband and wireless broadband mobile communications.

In 2017, we will focus on land acquisition and relevant government approvals and/or permits application to execute and implement our production capacity expansion plan and to make sure that our expansion plan can be completed on schedule so as to further expand in the PRC market and enhance our market penetration in the PRC to capture the potential growth and market opportunities.

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

BUSINESS REVIEW

The listing of the Company's shares on the Stock Exchange in December 2016 marked a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge, which laid a solid foundation for the Group's future development.

For the year ended 31 December 2016, the Group revenue reported a substantial increase by achieving approximately RMB805.9 million (2015: approximately RMB612.6 million), representing an increase of approximately 31.5% over that of last year. In 2016, the Group accomplished a profit and total comprehensive income for the year attributable to owners of the Company of approximately RMB100.0 million (2015: approximately RMB72.2 million), representing a notable increase of approximately 38.6%.

In 2016, the Group's revenue, profit margin and profit and total comprehensive income for the year attributable to owners of the Company year have both recorded a rapid growth. During the year ended 31 December 2016, the Major PRC Telecommunications Network Operators had commenced their large scale construction on telecommunication infrastructure, which resulted in a booming demand in the optical fibre cable market in the PRC. Consequently, the Group has been awarded more orders from the Major PRC Telecommunications Network Operators, benefited from the long established relationship and strategic cooperation with them, which led to a significant increase in the Group's revenue.

The gross profit has achieved double-digit growth. With the commencement of Yingke's production in late 2015, the Group has increased its production capacity and thus has reduced the involvement of subcontractors for the production of optical fiber cables. The subcontracting fees thus decreased significantly during the year. In addition, the achievement of economies of scale has lowered the production cost and enhanced the Group's overall production efficiency. On the other hand, the Group has increased sourcing optical fibres, which are the major raw materials for production of optical fibre cables, from Jiangsu Nanfang Optic Electric Technology Company Limited ("**Nanfang Optic**"), a company that is currently owned as to 49% by the Group. The close relationship between the Group and Nanfang Optic enables the Group to better manage the quality and cost of the optical fibres, which in return has led to a competitive cost structure of the Group's optical fibre cable products.

With experienced and dedicated management team, the Group's operating expenses have been well managed and have increased moderately in line with the growth in the production capacity and revenue. This resulted in an improvement of profit and total comprehensive income attributable to owner of the Company for the year ended 31 December 2016.

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 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

FINANCIAL REVIEW

Revenue

Revenue of the Group consists of revenue derived from manufacturing and sales of optical fibre cables. For the year ended 31 December 2016, revenue of the Group amounted to approximately RMB805.9 million, representing an increase of approximately 31.5% from approximately RMB612.6 million in 2015. Profit and the total comprehensive income attributable to the owners of the Group for the year ended 31 December 2016 was approximately RMB100.0 million, representing an increase of approximately 38.6% from approximately RMB72.2 million in 2015. The increase in revenue was mainly attributable to more sales made to the Major PRC Telecommunications Network Operators.

Gross profit and margin

Gross profit increased by approximately 49.4% to approximately RMB182.3 million in 2016 from approximately RMB122.0 million in 2015, while the Group's gross profit margin was 22.6% in 2016 as compared to a gross profit margin of 19.9% in 2015. The increase in gross profit margin was mainly attributable to the decrease in the Group's sub-contracting fee for the production of optical fibre cables for the year ended 31 December 2016, which was due to the increase in production capacity as Yingke commenced production in late 2015.

Other income, gains, expenses and losses, net

The Group recorded an increase from a net loss of approximately RMB0.7 million in 2015 to a net gain of approximately RMB0.2 million in 2016. The increase was mainly attributable to an increase in interest income from approximately RMB1.7 million in 2015 to approximately RMB2.7 million in 2016.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 17.9% to approximately RMB10.6 million in 2016 from approximately RMB9.0 million in 2015. The increase was mainly attributable to an increase in (i) salaries primarily as a result of the employment of new sales staff for new projects; (ii) sales commission primarily as a result of an increase in the Group's revenue; and (iii) advertising and promotion expenses in 2016.

Administrative expenses

The Group's administrative expenses increased by approximately 56.6% to approximately RMB25.8 million in 2016 from approximately RMB16.5 million in 2015. The increase in the administrative expenses was mainly attributable to the bonuses paid to staff due to satisfactory operating performance and expenses incurred in relation to the Listing.

Research costs

The Group's research costs increased by approximately 36.1% to approximately RMB27.4 million in 2016 from approximately RMB20.1 million in 2015. The increase was mainly due to more research and development efforts employed for the purpose of new product development.

Finance costs

The Group's finance costs decreased by approximately 40.3% to approximately RMB5.1 million in 2016 from approximately RMB8.5 million in 2015. The decrease was mainly due to a decrease in bank borrowings.

Income tax expense

The Group's income tax expense increased by approximately 52.6% to approximately RMB14.6 million in 2016 from approximately RMB9.5 million in 2015. The increase was consistent with the increase in the Group's profits before tax.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, the profit and total comprehensive income for the year attributable to owners of the Company increased by approximately 38.6% to approximately RMB100.0 million in 2016 from approximately RMB72.2 million in 2015.

Liquidity, financial and capital resources

Cash position

As at 31 December 2016, the Group had an aggregate of restricted bank balances and bank balances and cash of approximately RMB557.9 million (2015: approximately RMB326.0 million), representing an increase of approximately 71.1% as compared to that as at 31 December 2015. As at 31 December 2016, the Group had restricted bank balances of approximately RMB119.4 million (2015: approximately RMB135.4 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

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

As at 31 December 2015, the Group had bank and other borrowings of approximately RMB129.0 million, of which approximately RMB20.0 million was secured by certain trade receivables of the Group.

Currency risk

While the Group's operations are principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has bank balance, listing expenses payable and bank loans denominated in foreign currencies (Hong Kong dollars and United States dollars). The Group does not use any derivative contracts to hedge against its exposure to currency risk. However, the Directors manage the Group's foreign currency risk by closely monitoring the movement of the foreign currency rates.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities, mainly bank balances and borrowings which carried/bore prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The management of the Group maintains a balanced portfolio of fixed rate and variable rate borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the Group's consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The credit risk on restricted bank balances and bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has concentration of credit risk because 98.9% (2015: 93.4%) of trade receivables as at 31 December 2016 were due from the Major PRC Telecommunications Network Operators with a good repayment history and a strong financial background.

Liquidity risk

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

Capital commitments

As at 31 December 2016, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB3.0 million (2015: approximately RMB3.1 million).

Save for the Reorganisation, the Group did not have any material acquisitions and disposals for the year ended 31 December 2016.

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings and net proceeds from the Global Offering. Save as disclosed in the Prospectus 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 2016, the Group had approximately 360 employees. For the year ended 31 December 2016, the Group incurred staff costs of approximately RMB32.6 million. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the period from the date of Listing and up to the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "**AGM**") will be held on Tuesday, 20 June 2017 and the Notice of AGM will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code since the date of Listing and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code throughout the period since the date of Listing and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Chi Keung, Mr. Chan Kai Wing, and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee. Since the date of Listing and up to the date of this announcement, the Audit Committee held a meeting on 24 March 2017 which had been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Pursuant to the afore-said meeting, 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 2016 and this results announcement, and considcred that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate thereof.

REMUNERATION COMMITTEE

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

Since the date of Listing and up to the date of this announcement, the Remuneration Committee held a meeting which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely, Mr. Yu, Mr. Lam Chi Keung and Mr. Chan Kai Wing. Mr. Yu is the chairman of the Nomination Committee. The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings.

Since the date of Listing and up to the date of this announcement, the Nomination Committee held a meeting which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS AND DIVIDEND PAYMENT

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from 15 June 2017 (Thursday) to 20 June 2017 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 14 June 2017 (Wednesday).

For determining the entitlement to the final dividend (if approved at the forthcoming AGM), the register of members of the Company will be closed from 26 June 2017 (Monday) to 28 June 2017 (Wednesday), both days inclusive. The record date will be 28 June 2017 (Wednesday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 23 June 2017 (Tuesday). During the above closure periods, no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, and qualifying for the final dividend (if approved at the forthcoming annual general meeting), all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the date of Listing and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group have occurred since the end of the financial year ended 31 December 2016 and up to the date of this announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the website of each of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company (www.jsnfgroup.com). The Company's 2016 annual report will be despatched to the Company's shareholders on or before 28 April 2017 and will be available at the website of each of the Stock Exchange and the Company.

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

Hong Kong, 24 March 2017

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.