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Nanfang Communication Holdings Limited

南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

For the six months ended 30 June 2017, the Group's operating results were as follows:

- Total revenue increased by approximately 8.1% to approximately RMB414.0 million (six months ended 30 June 2016: approximately RMB383.0 million).
- Gross profit increased by approximately 2.6% to approximately RMB83.2 million (six months ended 30 June 2016: approximately RMB81.1 million).
- Gross profit margin decreased by approximately 1.1% to approximately 20.1%.
- Profit and total comprehensive income for the period attributable to owners of the Company increased by approximately 8.0% to approximately RMB44.0 million (six months ended 30 June 2016: approximately RMB40.8 million).
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017.

The board of directors (the "**Board**") of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the "**Company**") is pleased to announce the following unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2017, together with the comparative unaudited figures for the six months ended 30 June 2016, as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
	Notes	**2017**	2016
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**414,006**	382,966
Cost of sales		**(330,809)**	(301,913)
Gross profit		**83,197**	81,053
Other income, gains, expenses and losses, net	*5*	**(3,736)**	(20)
Selling and distribution expenses		**(6,502)**	(4,663)
Administrative expenses		**(13,715)**	(9,520)
Listing expenses		**–**	(15,667)
Research costs		**(14,624)**	(11,424)
Finance costs	*6*	**(2,938)**	(2,879)
Share of profit of an associate		**11,356**	10,668
Profit before tax	*8*	**53,038**	47,548
Income tax expense	*7*	**(8,989)**	(6,752)
Profit and total comprehensive income for the period		**44,049**	40,796
Earnings per share	*9*		
– Basic		**RMB0.04**	RMB0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017

	Notes	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**86,469**	84,556
Prepaid lease payments		**12,824**	12,820
Interest in an associate		**102,464**	91,554
Prepayments for property, plant and equipment and prepaid lease payments		**14,112**	6,846
Deferred tax assets		**5,887**	5,578
		221,756	201,354
CURRENT ASSETS			
Inventories		**69,948**	57,304
Trade receivables	*11*	**501,498**	484,063
Bills receivable	*12*	**800**	267
Prepaid lease payments		**258**	258
Due from shareholders of the ultimate holding company	*13*	**7,100**	–
Prepayments, deposits and other receivables		**13,592**	36,547
Available-for-sale investments		**230**	230
Restricted bank balances	*14*	**93,463**	119,386
Bank deposits with original maturity more than three months		**53,874**	–
Bank balances and cash		**312,417**	438,540
		1,053,180	1,136,595
CURRENT LIABILITIES			
Trade payables	*15*	**177,615**	200,589
Bills payable	*16*	**147,088**	195,273
Advances from customers and other payables		**74,490**	97,414
Dividends payable		**26,246**	–
Bank borrowings	*17*	**100,500**	118,877
Current income tax liabilities		**40,065**	36,754
		566,004	648,907
NET CURRENT ASSETS		**487,176**	487,688
TOTAL ASSETS LESS CURRENT LIABILITIES		**708,932**	689,042

	Notes	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*18*	**997**	997
Reserves		**694,464**	676,854
TOTAL EQUITY		**695,461**	677,851
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,399**	–
Deferred revenue		**11,072**	11,191
		13,471	11,191
		708,932	689,042

Notes:

1. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the annual financial statements of the Company (together with its subsidiaries collectively referred to as the ''**Group**'') for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("**IFRSs**") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

Geographical information

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

Major customers

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**281,749**	166,397
Customer B	**126,044**	187,721

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income	**866**	1,124
Foreign exchange losses, net	**(6,294)**	–
Gain/(loss) on sales of other materials	**81**	(120)
Allowance for impairment of trade receivables	**(4)**	(1,017)
Government grants recognised *(Note)*	**2,123**	–
Others	**(508)**	(7)
	(3,736)	(20)

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

6. FINANCE COSTS

The amount represents interest on bank and other loans.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**6,899**	9,050
– Deferred tax	**2,090**	(2,298)
Total income tax recognised in profit or loss	**8,989**	6,752

No provision for income taxes of the Company and certain of its wholly owned subsidiaries, namely, Century Planet Limited, Nanfang Communication Group Limited and MacroSmart Investment Limited in respect of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the current interim period (six months ended 30 June 2016: (unaudited) 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 Jiangsu Yingke Communication Technology Company Limited ("**Yingke**"), a wholly owned subsidiary of the Company was 25% for the current interim period (six months ended 30 June 2016: (unaudited) 25%) while Jiangsu Nanfang Communication Technology Company Limited, a wholly owned subsidiary of the Company is recognised as a "High and New Technology Enterprise" and is entitled to a reduced EIT rate of 15% for the current interim period (six months ended 30 June 2016: (unaudited) 15%) pursuant to the relevant regulations.

8. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**3,989**	3,670
Release of prepaid lease payments	**360**	129
Staff costs (including the Directors' remuneration)		
Salaries, wages and allowances	**13,509**	12,615
Retirement benefit scheme contributions	**1,345**	1,123
Total staff cost	**14,854**	13,738
Allowance for impairment of trade receivables	**4**	1,017
Cost of inventories recognised as cost of sales	**330,809**	301,913

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**44,049**	40,796

	Six months ended 30 June	
	2017	2016
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,120,000**	840,000

The calculation of basic earnings per share during the six months ended 30 June 2016 is based on 840,000,000 ordinary shares of the Company which were issued immediately after the Capitalisation Issue (as defined in note 18(c) below) and deemed to have been issued since 1 January 2016.

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

10. DIVIDEND

During the current interim period, a final dividend of HK¢2.7 (equivalent to RMB0.02) per ordinary share in respect of year ended 31 December 2016 (six months ended 30 June 2016: (unaudited) Nil, in respect of the year ended 31 December 2015), an aggregate amount of HK$30,240,000 (equivalent to RMB26,824,000) (six months ended 30 June 2016: (unaudited) Nil) out of the Company's share premium was declared to the shareholders of the Company.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: (unaudited) Nil).

11. TRADE RECEIVABLES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Trade receivables	**507,675**	490,236
Less: Allowance of doubtful debts	**(6,177)**	(6,173)
	501,498	484,063

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Less than 6 months	**359,026**	397,376
More than 6 months, but less than 1 year	**136,222**	59,866
More than 1 year	**6,250**	26,821
	501,498	484,063

For the six months ended 30 June 2017, 99.8% (six months ended 30 June 2016: (unaudited) 99.8%) of the Group's sales of optical fibre cables and other materials were made to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and the remainder was made to other third parties. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% to 90% of payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in 12 months, in general, upon acceptance of goods with the remainder to be paid in the next six months. In addition, the Group granted credit periods of not more than one year to those long standing third party customers with a good repayment history. The Group does not obtain collateral from customers.

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

	At 30 June 2017 *RMB'000* **(Unaudited)**	At 31 December 2016 *RMB'000* (Audited)
Less than 6 months	**4,427**	7,330
More than 6 months, but less than 1 year	**–**	3,573
More than 1 year	**2,150**	3,580
	6,577	14,483

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

12. BILLS RECEIVABLE

As at 31 December 2016 and 30 June 2017, the Group's bills receivable were issued by banks with maturity within six months.

13. DUE FROM SHAREHOLDERS OF THE ULTIMATE HOLDING COMPANY

The amounts were advanced to shareholders of the ultimate holding company of the Company, Pacific Mind Development Limited ("**Pacific Mind**") that were unsecured, interest-free and settled in August 2017.

14. RESTRICTED BANK BALANCES

As at 31 December 2016 and 30 June 2017, the Group's restricted bank balances were pledged to banks for issuing bills payable.

15. TRADE PAYABLES

The average credit period on purchases of materials was within four months upon receipts of the materials and the relevant VAT invoices.

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

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 6 months	**171,345**	196,650
More than 6 months, but less than 1 year	**3,280**	1,014
More than 1 year	**2,990**	2,925
	177,615	200,589

Included in trade payables is an amount due to an associate of RMB76,922,000 (as at 31 December 2016: (audited) RMB103,503,000) as at 30 June 2017. The amount due to the associate was unsecured, interest-free and payable according to the relevant purchase agreements.

16. BILLS PAYABLE

As at 31 December 2016 and 30 June 2017, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's restricted bank balances.

17. BANK BORROWINGS

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unsecured	**75,500**	60,877
Unsecured with guarantees *(Note)*	**25,000**	58,000
	100,500	118,877

Note:

As at 31 December 2016 and 30 June 2017, the repayment of these bank loans is guaranteed by Yingke.

18. SHARE CAPITAL

	Number of shares *'000*	Share capital *HK$'000*
Ordinary share of HK$0.001 each		
Authorised:		
On 10 May 2016 (date of incorporation) *(Note (a))*	380,000	380
Increase on 24 November 2016 *(Note (b))*	7,620,000	7,620
At 31 December 2016 and 30 June 2017	8,000,000	8,000
Issued and fully paid:		
On 10 May 2016 (date of incorporation) *(Note (a))*	–	–
Issue of ordinary shares upon capitalisation of share premium *(Note (c))*	840,000	840
Issue of ordinary shares *(Note (d))*	280,000	280
At 31 December 2016 and 30 June 2017	1,120,000	1,120

Presented in the condensed consolidated financial statements as

	RMB'000
At 31 December 2016 and 30 June 2017	997

Notes:

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

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

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

(d) On 12 December 2016, 280,000,000 ordinary shares of HK$0.001 each of the Company were issued at a price of HK$1.02 each by way of the global offering (the "**Global Offering**"). On the same date, the Company's ordinary shares were listed on 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The listing of the Company's shares on the Stock Exchange in December 2016 marked a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge, which laid a solid foundation for the Group's future development. The Group's revenue, gross profit and profit and total comprehensive income attributable to owners of the Company for the six months ended 30 June 2017 have recorded a steady growth as compared to that of the same period in 2016.

For the six months ended 30 June 2017, the Group recorded a continuous increase in its revenue of approximately RMB414.0 million (six months ended 30 June 2016: approximately RMB383.0 million), representing an increase of approximately 8.1% as compared to that of the same period in 2016. The Major PRC Telecommunications Network Operators have continued their large scale construction on telecommunication infrastructure, which resulted in a booming demand in the optical fibre cable market in the PRC. Consequently, the Group has been awarded more orders from the Major PRC Telecommunications Network Operators, benefited from the long established relationship and strategic cooperation with them, which led to a continuous increase in the Group's revenue. The gross profit of the Group for the six months ended 30 June 2017 has achieved an established growth, which was in line with the increase in the revenue of the Group for the six months ended 30 June 2017.

The gross profit margin of the Group decreased by approximately 1.1% to approximately 20.1% for the six months ended 30 June 2017 as compared to a gross profit margin of 21.2% for the six months ended 30 June 2016, due to stringent supply of optical fibre preforms, the major raw materials for production of optical fibres, in domestic market. Along with the continuous anti-dumping duties imposed on imported optical fibre preforms, China market has experienced a severe shortage of optical fibre preforms, which in turn led to the shortage of optical fibres, the major raw materials for production of our optical fibre cables. Under such circumstance, the Group has secured its sourcing of optical fibres from Jiangsu Nanfang Optic Electric Technology Company Limited ("**Nanfang Optic**"), a company 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. However, the prices of optical fibre preforms and optical fibres have been observed an upward trend, which may have an adverse impact on the Group's cost of sales.

During the period ended 30 June 2017, the Group's recorded a profit and total comprehensive income for the period attributable to owners of the Company of approximately RMB44.0 million (six months ended 30 June 2016: approximately RMB40.8 million), representing a stable increase of approximately 8.0%. By excluding the effect of non-operational expense of a net foreign exchange loss of approximately RMB6.3 million mainly arising from translation of the Group's bank deposits and balances denominated in foreign currencies at the end of current interim period, the profit and total comprehensive income for the period attributable to owners of the Company would achieve an increase to approximately RMB50.3 million.

Financial review

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables. For the six months ended 30 June 2017, revenue of the Group amounted to approximately RMB414.0 million, representing an increase of approximately 8.1% from approximately RMB383.0 million for the six months ended 30 June 2016. The increase in revenue was mainly attributable to more sales made to the Major PRC Telecommunications Network Operators.

Gross profit and gross profit margin

Gross profit increased by approximately 2.6% to approximately RMB83.2 million for the six months ended 30 June 2017 from approximately RMB81.1 million for the six months ended 30 June 2016. The Group's gross profit margin was 20.1% for the six months ended 30 June 2017 as compared to a gross profit margin of 21.2% for the six months ended 30 June 2016. The change in gross profit margin was mainly attributable to the stringent supply of optical fibers in the entire market in China and thus has driven up the cost of sales of the Group, and led to an adverse impact on the Group's gross profit margin.

Other income, gains, expenses and losses, net

The Group recorded an increase from a net loss of approximately RMB20,000 for the six months ended 30 June 2016 to a net loss of approximately RMB3.7 million for the six months ended 30 June 2017. The increase in net loss was mainly attributable to an increase in net foreign exchange losses of approximately RMB6.3 million for the six months ended 30 June 2017, and such net foreign exchange losses mainly arose from translation of the Group's bank deposits and balances denominated in foreign currencies at the end of current interim period (six months ended 30 June 2016: nil).

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 39.4% to approximately RMB6.5 million for the six months ended 30 June 2017 from approximately RMB4.7 million for the six months ended 30 June 2016. The increase was mainly attributable to an increase in (i) salaries primarily as a result of the employment of new sales staff for new projects; (ii) sales commission primarily as a result of an increase in the Group's revenue; and (iii) transportation expenses as the Group's optical fibre cables were distributed to customers on a wider geographic coverage.

Administrative expenses

The Group's administrative expenses increased by approximately 44.1% to approximately RMB13.7 million for the six months ended 30 June 2017 from approximately RMB9.5 million for the six months ended 30 June 2016. Following the listing in December 2016, the Group has employed more efforts to manoeuvere the compliance requirement for a fuller disclosure and governance. The administrative expenses increased in line with the increase in the Group's growing operations.

Listing expenses

The Group has no listing expenses in the current interim period whereas it incurred listing expenses of approximately RMB15.7 million for the same period in 2016.

Research costs

The Group's research costs increased by approximately 28.0% to approximately RMB14.6 million for the six months ended 30 June 2017 from approximately RMB11.4 million for the six months ended 30 June 2016. 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 were approximately RMB2.9 million for the six months ended 30 June 2017 and comparable with that for the six months ended 30 June 2016.

Income tax expense

The Group's income tax expense increased by approximately 33.1% to approximately RMB9.0 million for the six months ended 30 June 2017 from approximately RMB6.8 million for the six months ended 30 June 2016. The increase was in line 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 attributable to owners of the Company increased by approximately 8.0% to approximately RMB44.0 million for the six months ended 30 June 2017 from approximately RMB40.8 million for the six months ended 30 June 2016.

Liquidity, financial and capital resources

Cash position

As at 30 June 2017, the Group had an aggregate of restricted bank balances, bank deposits, bank balances and cash of approximately RMB459.8 million (as at 31 December 2016: approximately RMB557.9 million), representing a decrease of approximately 17.6% as compared to that as at 31 December 2016. As at 30 June 2017, the Group had restricted bank balances of approximately RMB93.5 million (as at 31 December 2016: approximately RMB119.4 million) that were pledged to banks for issuing bills payable.

Bank borrowings

As at 30 June 2017, the Group had bank borrowings of approximately RMB100.5 million (as at 31 December 2016: RMB118.9 million), which were unsecured and repayable within one year.

Currency risk

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

Interest rate risk

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

Credit risk

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

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

The Group has concentration of credit risk because 99.5% (as at 31 December 2016: 98.9%) of trade receivables as at 30 June 2017 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 30 June 2017, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB4.2 million (as at 31 December 2016: approximately RMB3.0 million).

Save for the reorganisation arrangements undergone by the Group in preparation for the listing, the Group did not have any material acquisitions and disposals for the period ended 30 June 2017.

Employees and remuneration policies

As at 30 June 2017, the Group had approximately 360 employees. For the six months ended 30 June 2017, the Group incurred staff costs of approximately RMB14.9 million. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

OUTLOOK

The "Broadband China" Strategic Implementation Plan, the Thirteenth Five-Year Plan of the Communication Industry, as well as the continuous implementation of the "Internet Plus" initiative will keep accelerating the integration of information and communication technologies and industry as well as promote the industrial upgrade. This 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.

While the demand for optical fibre cables stands strong, due to the anti-dumping duties imposed on imported optical fibre preforms from Japan and the United States since August 2015, the PRC market experienced stringent supply of optical fibre preforms which resulted in restrained supply of optical fibres industry-wide since then. We anticipate the shortage of supply in optical fibre preforms will be relieved with the expansion of production capacity of optical fibre preform suppliers, which will in turn boost the supply of optical fibres.

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

As at 30 June 2017, approximately HK$58.3 million of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the net proceeds:

	%	**Original plan allocation of net proceeds** *HK$'000,000*	**Actual utilised as at 30 June 2017** *HK$'000,000*	**Unutilised as at 30 June 2017** *HK$'000,000*
For constructing the phase II expansion plan of our Jin Tan Factory to expand our production capacity and increase our production efficiency	48.9	121.3	19.5	101.8
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	7.5	17.5
For repaying parts of the bank loans drawn down from a financial institution	6.1	15.1	15.1	–
For additional working capital and other general corporate purpose in order to improve the liquidity and gearing ratio of our Group	6.5	16.2	16.2	–
Total	**100***	**248.4**	**58.3**	**190.1**

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the six months ended 30 June 2017 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2017 and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the six months ended 30 June 2017.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rule and the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Lam Chi Keung, Mr. Chan Kai Wing, and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee. In each Audit Committee meeting, the Audit Committee had been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

The Audit Committee had, together with the management of the Company and external independent auditor, reviewed the Group's unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017 (the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the six months ended 30 June 2016 and the relevant explanatory notes have not been reviewed) and this results announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate thereof.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2017, the Group had no material acquisition or disposal of its subsidiaries and associated companies.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group have occurred since the end of the six months ended 30 June 2017 and up to the date of this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement will be published on the website of each of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company (www.jsnfgroup.com). The interim report of the Company for the six months ended 30 June 2017 will be dispatched to the Company's shareholders on or before 29 September 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, 18 August 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.