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2019 ANNUAL REPORT

南方通信
Nanfang Communication

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

(Incorporated in Cayman Islands with limited liability)

(Stock Code：1617)

CONTENTS

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
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P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 903, 9/F., Capital Centre
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Wan Chai, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC
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Jiangsu Province, The People's Republic of China

AUDITOR
Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway, Hong Kong

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
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SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
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Hong Kong

WEBSITE
www.jsnfgroup.com

STOCK CODE
1617

Company Profile

Nanfang Communication Holdings Limited (the "**Company**") (stock code: 1617) (together with its subsidiaries, collectively referred to as the "**Group**") is a well-established supplier for optical telecommunication products with the Group's headquarters based in Changzhou City, Jiangsu Province, the People's Republic of China (the "**PRC**"). The Group is principally engaged in manufacturing and sales of a wide range of optical fibre cable products and related devices. The Group aligns a complete industry chain along the optical fibre preforms and optical fibre business through its joint venture entity and associate. As a leading company in the optical fibre cables market in the PRC, the Group offers various models of optical fibre cables and related devices to cater for customers' demand. Such optical fibre cables can be used in different applications, such as mobile communication networks, internet networks, and fixed telephone networks in the telecommunications industry, and can be installed under different conditions. The Group's customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC. The Group has established stable and long-term relationships with its key customers with a trusted brand, which would greatly secure the sales for the Group's on-going business operation.

The Group is highly regarded in the optical fibre cable market in the PRC. The Group was awarded ISO 9001:2015, ISO 14001:2015, ISO 45001:2018 and OHSAS 18001:2007 certificates in relation to manufacturing of optical fibre cable products and was recognised by the Science and Technology Department of Jiangsu Province in the PRC as a high and new technology enterprise（高新技術企業）since 2010. In 2018, the Company was granted accreditation for laboratories from China National Accreditation Service for Conformity Assessment（中國合格評定國家認可委員會）. Moreover, the Group was rewarded with AAA grading in quality credit（企業行業信用）by the China Association of Communication Enterprises（中國通信企業協會）, demonstrating our commitment in pursuing highest product quality. The Group also participated in the drafting of the national and telecommunications industry standards initiated by China Communications Standards Association（中國通信標準化協會）for publication by the government authorities for optical fibre cables in the PRC. The Group believes that, by leveraging the Group's strengths on product quality and research ability, the Group has successfully enhanced the Group's product recognition in the market.

Supported by the Group's two production sites, namely, Wu Jin Factory and Jin Tan Factory, both of which are located in Changzhou City, Jiangsu Province, the PRC, the Group owns a total site area of approximately 76,900 square metres. The Group's aggregate annual production capacity has reached approximately 15 million fkm upon the completion of expansion of Jin Tan Factory in 2019, which further benefitted the Group from the economies of scale. In 2019, both of our Wu Jin Factory and Jin Tan Factory were recognised as State and Changzhou City Green Factory respectively, demonstrating our efforts in green production and environmental protection.

On 12 December 2016, the shares of the Company were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). As of 31 December 2019, the Company had 1,120,000,000 issued shares.

Financial Highlights

For the year ended 31 December 2019, the Group's operating results were as follows:

- Total revenue decreased to approximately RMB534.3 million (2018: approximately RMB900.3 million)
- Gross profit decreased by approximately 42.8% to approximately RMB129.5 million (2018: approximately RMB226.7 million)
- Gross profit margin decreased by approximately 1% to approximately 24.2% (2018: approximately 25.2%)
- Profit and total comprehensive income for the year attributable to owners of the Company decreased by approximately 76.1% to approximately RMB33.9 million (2018: approximately RMB141.4 million)
- The Board recommended the payment of a final dividend of RMB0.035 (2018: approximately RMB0.0625) per ordinary share

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	534,327	900,300	901,328	805,921	612,637
Profit before tax	41,764	168,543	147,589	114,586	81,692
Income tax expense	(7,908)	(27,111)	(17,257)	(14,553)	(9,538)
Profit and total comprehensive income for the year	33,856	141,432	130,332	100,033	72,154
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	33,856	141,432	130,332	100,033	72,154
Non-controlling interests	–	–	–	–	–
	33,856	141,432	130,332	100,033	72,154

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	1,337,657	1,495,390	1,235,233	1,337,949	1,041,627
Total liabilities	(523,426)	(645,015)	(453,874)	(660,098)	(710,280)
	814,231	850,375	781,359	677,851	331,347
Equity attributable to owners of the Company	814,231	850,375	781,359	677,851	331,347
Non-controlling interests	–	–	–	–	–
	814,231	850,375	781,359	677,851	331,347

Note: The results for year ended 31 December 2015 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the year concerned. The figures for the year ended 31 December 2015 have been extracted from the Company's prospectus dated 30 November 2016 (the "**Prospectus**").

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of Directors (the "**Directors**") of the Group, I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2019.

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded a decrease of revenue by 40.7% to approximately RMB534.3 million for the year ended 31 December 2019 (year ended 31 December 2018: approximately RMB900.3 million).

During the year ended 31 December 2019, the gross profit of the Group was approximately RMB129.5 million (year ended 31 December 2018: approximately RMB226.7 million), experienced a reduction of approximately 42.8%.

During the year ended 31 December 2019, the Company reported a decline in profit and total comprehensive income for the period attributable to owners of the Company by approximately 76.1% to approximately RMB33.9 million (year ended 31 December 2018: approximately RMB141.4 million).

During the year ended 31 December 2019, the Company's basic earning per share was approximately RMB0.03 (year ended 31 December 2018: approximately RMB0.13).

OUTLOOK

The Group's revenue and net profit recorded a remarkable decline in 2019 as compared to 2018. The attributable reasons are: (1) While the large-scale construction of 5G networks has not yet officially commenced in 2019, the three state-owned telecommunication network operators in the PRC ("**Major PRC Telecommunications Network Operators**") have adjusted their network construction expenditures. The length of newly constructed optical fibre cable across the country has decreased by 1.44 million km, approximately 25%, to 4.34 million km in 2019. This resulted in supply-demand imbalance of optical fibre and optic fibre cable. The tendering price of optical fibre and optic fibre cable was thus significantly lowered compared to 2018. The deteriorating operating environment in the market led to reduced business revenue. (2) As the production capacity of upstream optical fibre preforms was released, the shortage of optical fibre was resolved, and thus the production capacity of optical fibre cables soared. The keen competition drove the gross profit margin down. (3) The Group's has recorded the share of significant loss of an associate which is principally engaged in the manufacturing and sales of optical fibre, as the purchase price adjustment of its major raw materials, optical fibre preforms, lagged behind the selling price adjustment of finished goods, optical fibre products.

Chairman's Statement

On 4 March 2020, the Standing Committee of the Political Bureau of the Communist Party of China held a meeting and contended the acceleration of the construction of new infrastructure such as 5G networks and data centres. The 5G network construction, as the leading pillar of the *"New Infrastructure"*（新基建）, is one of the most feasible measures to counter economic downturn due to novel coronavirus epidemic, expand domestic demand and stimulate growth. The PRC government hopes to cultivate an evolution for economic development by promoting the construction of the 5G. In the long term, the new information and communication infrastructure led by 5G will not only enhance information consumption, but also provide a robust support for the transformation and upgrading of the social economy, driving the transformation of innovation from consumer internet to the industrial internet, and promoting the digital transformation of social governance and the high-quality development of the economy. Subsequently, on 24 March 2020, the Ministry of Industry and Information Technology of the PRC published the *Notice on Accelerating the Development of 5G* (《關於推動5G加快發展的通知》), which clearly put forward eighteen measures in five aspects, namely accelerating the construction and deployment of 5G networks, enriching the application of 5G technologies, intensifying the research and development of 5G technologies, formulating 5G security system, and strengthening the organisation and implementation. These measures will dedicate to promote network construction, application of 5G network, technology development and security.

Being the core developer of the current industrial development of 5G, the Major PRC Telecommunications Network Operators are accelerating the central procurement of 5G network equipment. Firstly, the original network construction plan was once postponed due to the epidemic and the operators are catching up the progress when the epidemic is alleviated. Secondly, the direct catalytic effect of "*New Infrastructure*" has brought forward the schedules of the entire industry. By the end of 2019, approximately 130,000 5G base stations have been built in China. It is planned that more than 600,000 new 5G base stations will be built by the end of 2020. We anticipate the number of 5G base stations will be 1.5-1.8 times the number of 4G base stations, and the total number of base stations construction will be about 6.5 million. While the construction of 5G base stations will boost in the next three years, the operators will incur a record high in its capital expenditure.

The China Institute of Information and Communication Technology predicts that the cumulative investment in 5G network construction will reach approximately RMB1.2 trillion by 2025. The 5G network construction will also drive the investment in upstream and downstream along the industrial chain as well as various industries. It is expected that by 2025, the cumulative investment will be more than RMB3.5 trillion. As a result, the demand for optical fibre and optical fibre cable will increase considerably, and the price of optical fibre and optical fibre cable will rebound from the current low. With the support of national policies, the development of 5G technology will be escalating, and the demand for optical fibre and optical fibre cable is expected to recover in 2020.

The loss of the Group's associate engaged in optical fibre industry is expected to be substantially reduced thanks to the price adjustment of its major raw materials, optical fibre preform, has been put in place.

Chairman's Statement

Since the outbreak of the Coronavirus Disease 2019 ("**COVID-19**") epidemic in January 2020 in the PRC, the contagion of COVID-19 has spread worldwide. The pandemic caused by the COVID-19 has certain impacts on the business operation and overall economy in different regions and industries in the world. The Group has gradually resumed operations and production since March 2020 and we consider that the impact of COVID-19 on the Group's operations and future prospects would depend on the duration of the epidemic, the implementation of regulatory policies and relevant protective measures that might affect the business environment that the Group is operating at. With the aspiration of the 5G network construction as elaborated above, the Group will stay alert on the development and situation of the COVID-19, continue to assess its impacts on the Group and take necessary actions to mitigate its business risk. In order to cope with the challenges, the Group will diligently participate in the new hardware manufacturing industry catering for the need of 5G network construction in 2020. The Group will explore overseas markets expansion as appropriate and enhance our competitiveness and market share, with a hope for striving for satisfactory returns for our shareholders.

APPRECIATION

Lastly, on behalf of the Board, I would like to extend my sincere gratitude to our shareholders for their support to the Group. The management team and staff of the Group will be dedicated to future business growth and optimise return to our shareholders.

Yu Jinlai
Chairman

Hong Kong, 31 March 2020

A. FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the year ended 31 December 2019, revenue of the Group amounted to approximately RMB534.3 million, representing decrease of 40.7% from approximately RMB900.3 million for the year ended 31 December 2018. During the reporting period, the Major PRC Telecommunications Network Operators reduced their network construction expenditures and drove the procurement down. The awarded tendering prices decreased significantly and led to reduced business revenue.

Cost of Sales

For the year ended 31 December 2019, cost of sales of the Group was approximately RMB404.8 million, representing a decline of approximately 39.9% from approximately RMB673.6 million for the year ended 31 December 2018. During the reporting period, the decline was due to (i) the Major PRC Telecommunications Network Operators having reduced the procurement and thus leading to a decline in operating scale; and (ii) the decrease in price of raw material, optical fibre.

Gross profit and margin

Gross profit decreased by approximately 42.8% to approximately RMB129.5 million for the year ended 31 December 2019 from approximately RMB226.7 million for the same period in 2018. During the period, the Group's gross profit margin was approximately 24.2% as compared to a gross profit margin of approximately 25.2% for the year ended 31 December 2018. The slight drop in gross profit margin was mainly attributable to the Major PRC Telecommunications Network Operators having reduced the procurement and thus leading to a decline in operating scale but with unit fixed cost being pushed up.

Other income, gains, expenses and losses, net

A net gain of approximately RMB12.3 million for the year ended 31 December 2018 has been increased to a net gain of approximately RMB20.4 million for the same period in 2019. The increase in net gain during the year was mainly attributable to (i) the increase in interest income to approximately RMB12.6 million (year ended 31 December 2018: approximately RMB5.0 million) and (ii) the increase of government grant recognized to approximately RMB5.5 million (year ended 31 December 2018: approximately RMB3.4 million).

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 10.3% to approximately RMB18.7 million for the year ended 31 December 2019 from approximately RMB16.9 million for the same period in 2018. The administrative fee increased because the Group participated actively in submitting tenders to the Major PRC Telecommunication Network Operators during the reporting period and thus the bidding costs inflated.

Administrative expenses

The Group's administrative expenses increased by approximately 10.9% to approximately RMB41.3 million for the year ended 31 December 2019 from approximately RMB37.3 million for the year ended 31 December 2018. Following the Listing in December 2016, the Group has employed more efforts to manoeuvre the compliance requirement for internal control and governance. The administrative expenses increased in line with the Group's operations.

Research costs

The Group's research costs decreased by approximately 33.9% to approximately RMB30.2 million for the year ended 31 December 2019 from approximately RMB45.7 million for the year ended 31 December 2018. The decrease was mainly attributable to the completion of the 5G related projects during the year.

Finance costs

During the year ended 31 December 2019, the Group's finance costs increased by approximately 72.4% to approximately RMB10.4 million from approximately RMB6.0 million for the same period in 2018. The increase was in line with the increase in bank borrowings during the year.

Share of (loss) profit of an associate

During the year ended 31 December 2019, the Group recorded share of loss of an associate of approximately RMB11.0 million while it recognized share of profit of approximately RMB35.4 million for the same period of 2018. The associate is engaged in the manufacturing and trading of optical fibre. Affected by the entire industry, the supply-demand imbalance of optical fibre and optic fibre cable led to selling price adjustment of optical fibre products. This has deteriorated its profitability.

Income tax expense

The Group's income tax expense decreased by approximately 70.8% to approximately RMB7.9 million for the year ended 31 December 2019 from approximately RMB27.1 million for the year ended 31 December 2018. The decrease was in line with the decrease in the Group's profits.

Profit and total comprehensive income attributable to owners of the Company

As a result of the above, the Company has reported a decrease in profit and total comprehensive income attributable to owners of approximately 76.1% to approximately RMB33.9 million for the year ended 31 December 2019 from approximately RMB141.4 million for the same period in 2018.

Liquidity, financial and capital resources

Cash position

As at 31 December 2019, 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 RMB529.0 million (2018: approximately RMB480.0 million), representing an increase of approximately 10.2% as compared to that as at 31 December 2018. As at 31 December 2019, the Group had restricted bank deposits and balances of approximately RMB67.2 million (2018: approximately RMB73.6 million) that were pledged to banks for issuing bills payable.

Borrowings and charges on the Group's assets

As at 31 December 2019, the Group had bank loans of approximately RMB110.0 million (2018: approximately RMB200.0 million), which were unsecured. All bank loans will be repayable within one year.

Gearing ratio

As at 31 December 2019, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 64.3% (2018: approximately 75.9%).

Currency risk

While the Group's operations were principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, loan to Pacific Smart Development Limited, advance from the ultimate holding company 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 to Pacific Smart Development Limited, lease liabilities and bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets, mainly restricted bank balances and bank balances which carried at 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

As at 31 December 2019 and 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team 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 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 expected credit loss ("**ECL**") is insignificant.

The Group has concentration of credit risk because approximately 97.9% (2018: approximately 86.0%) of trade receivables as at 31 December 2019 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

Liquidity risk

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

Capital commitments

As at 31 December 2019, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB2.7 million (2018: approximately RMB2.9 million).

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 in which the Company's ordinary shares of HK$0.001 each were issued at a price of HK$1.02 each on 12 December 2016 (the "**Global Offering**"). Save as disclosed in the Prospectus and in this report, 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 2019, the Group had approximately 420 employees (2018: approximately 440). For the year ended 31 December 2019, the Group incurred staff costs of approximately RMB41.3 million (2018: approximately RMB42.2 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.

For further details of the Company's Share Option Scheme, please refer to section "Share Option Scheme" of the Report of the Directors below. No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2018 and 2019.

Contingent liabilities and litigation

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

B. ACQUISITION OF A SUBSIDIARY AND ASSIGNMENT OF SHAREHOLDER'S LOAN AND SUBSEQUENT TERMINATION

On 26 June 2019, the Company and Gold Image Limited ("**Gold Image**") entered into a sales and purchase agreement (the "**SP Agreement**"), pursuant to which Gold Image has conditionally agreed to sell its entire issued share capital of Pacific Smart Development Limited (the "**PS Shares**") and to assign a shareholder's loan due to the Company, and the Company has conditionally agreed to acquire the PS Shares and to accept the assignment of the shareholder's loan at a consideration of US$14,715,001.

As one or more of the applicable percentage ratios (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in respect of the acquisition of PS Shares and the assignment of the Shareholder's loan exceed(s) 5% but is/are less than 25%, it constituted a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

On 6 September 2019, due to the fact that some conditions in the SP Agreement cannot be fully satisfied for completion of the acquisition, the Company and Gold Image entered into a termination agreement, pursuant to which, the Company and Gold Image have agreed to terminate the SP Agreement and release each other (i) from all obligations, duties, responsibilities, claims and liabilities whatsoever of whatever nature (whether past, present or future) owed to any of them arising out of or in connection with the SP Agreement; and (ii) from the performance by the Company and Gold Image of any further obligations towards each other (if any) under the SP Agreement. The Directors confirm that no payment of any consideration was made pursuant to the SP Agreement. The Directors consider that the entering into the termination agreement has no material adverse impact on the existing operation and financial position of the Group.

For details of the acquisition of the PS Shares and the consequent termination, please refer to the Company's announcements dated 26 June 2019 and 6 September 2019.

C. 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 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.

As at 31 December 2019, approximately HK$179.8 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$'000,000	Actual utilised as at 31 December 2019 HK$'000,000	Unutilised as at 31 December 2019 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	52.7	68.6
For upstream development or acquisition of the optical fibre cable production value chain	28.5	70.8	70.8	–
For research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment	10.1	25.0	25.0	–
For repaying parts of the bank loans drawn down from a financial institution	6.1	15.1	15.1	–
For additional working capital and other general corporate purpose in order to improve the liquidity and gearing ratio of our Group	6.5	16.2	16.2	–
Total	**100****	**248.4**	**179.8**	**68.6**

** 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.

D. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from 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. The Company will issue a separate Environmental, Social and Governance Report no later than three months after the date of this report in compliance with the Appendix 27 of the Listing Rules.

E. 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 motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the separate Environmental, Social and Governance Report.

F. COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2019, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

G. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO ANNOUNCEMENT REQUIREMENT

During the year, the Group has the following continuing connected transactions under Chapter 14A of the Listing Rules ("the **Disclosed Continued Connected Transactions**").

i. Purchases of optical fibre preforms and raw materials from Jiangsu Hengtong Light Guide New Materials Company Limited* 江蘇亨通光導新材料有限公司 ("**Hengtong Light Guide**") by Jiangsu Yingke Optical Material Technology Company Limited* 江蘇盈科光導科技有限公司 ("**Yingke Optical Material**") under framework procurement agreement (details of the framework procurement agreement are set out in the announcement of the Company dated 4 April 2018)

ii. Sales of optical fibre preforms to Jiangsu Nanfang Optic Electric Technology Company Limited* 江蘇南方光纖科技有限公司 ("**Nanfang Optic**") from Yingke Optical Material under framework supply agreement (details of the framework supply agreement are set out in the announcement of the Company dated 4 April 2018)

iii. Purchases of raw materials from Jiangsu Hengtong Optic-Electric Company Limited* 江蘇亨通光電股份有限公司 ("**Jiangsu Hengtong**") and its fellow subsidiaries by the Group under Jiangsu Hengtong framework procurement and supply agreement (details of the Jiangsu Hengtong framework procurement and supply agreement are set out in the announcement of the Company dated 28 September 2018)

iv. Rental expenses in respect of leasing factory premises from Hengtong Light Guide by Yingke Optical Material under lease agreement (details of the lease agreement are set out in the announcement of the Company dated 4 April 2018)

v. Purchase of optical fibres from Nanfang Optic as raw materials for the production of the optical fibre cables during the ordinary course of the production of the Group under the optical fibre supply agreement with Nanfang Optic (details of the optical fibre supply agreement are set out in the announcement of the Company dated 25 October 2017)

The Company's auditor was engaged to report on the Disclosed Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the Disclosed Continuing Connected Transactions disclosed by the Group in this report in accordance with Rule 14A.56 of the Listing Rules as below:

a. nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes us to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the above list of continuing connected transactions (where applicable), nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have exceeded the annual cap as set by the Company.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that the continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

H. RELATED PARTY TRANSACTIONS

Save as disclosed in section headed "G. Continuing Connected Transactions subject to Announcement Requirement" above, none of the related party transactions disclosed in note 36 to the consolidated financial statements constitutes a discloseable connected transaction under Chapter 14A of the Listing Rules.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Shi Ming (石明先生), aged 48, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. He is also our chief executive officer. Mr. Shi was appointed as a general manager of Jiangsu Nanfang Communication Technology Company Limited* 江蘇南方通信科技有限公司("**Nanfang Communication**") in June 2007. Mr. Shi is mainly responsible for overseeing our overall management and operations, investment strategies and business development. Mr. Shi is also a director of each of Century Planet Limited ("**Century Planet**"), Nanfang Communication Group Limited ("**Nanfang Hong Kong**"), MacroSmart Investment Limited* 敏博投資有限公司 ("**MacroSmart**"), Jiangsu Yingke Communication Technology Company Limited* 江蘇盈科通信科技有限公司 ('**Yingke**') and Nanfang Optic. Mr. Shi had worked in a number of well-known PRC corporations and multinational corporations and has over 15 years of experience in enterprise management.

Mr. Shi graduated from Jiangsu Institute of Petrochemical Technology (江蘇石油化工學院) (currently known as Changzhou University (常州大學)) in July 1994 with a bachelor degree in chemical engineering and also obtained a bachelor degree in industrial foreign trade from Nanjing University of Science and Technology (南京理工大學) in July 1996. Mr. Shi is a qualified senior operating manager (高級經營師). Mr. Shi is now studying the Doctoral of Professional Studies in Business program at the Gabelli School of Business in the Fordham University, the United States.

Mr. Shi received Industry Outstanding Contribution Award (產業突出貢獻獎) from Communication Cable and Fibre Optic Cable Professional Committee of China Association of Communication Enterprises (中國通信企業協會通信電纜光纜專業委員會) in 2011. He was awarded the "Innovative Individual in Telecommunications Industry in the PRC (中國通信光電纜新銳人物)" by CCTIME.com (飛象網) in 2015, and the "National May Day Brand Construction Award – Leading Person (全國五一品牌建設獎-領軍人物)" in 2016 China Brand Innovation Forum and National May Day Brand Construction Award Electing activities (2016中國品牌創新論壇暨全國五一品牌建設獎推選活動) in May 2016.

Mr. Shi is the spouse of Ms. Yu Rumin, son-in-law of Mr. Yu Jinlai and brother-in-law of Ms. Yu Ruping.

Mr. Shi is the spouse of Ms. Yu Rumin and therefore he is deemed to be interested in the 840,000,000 Shares where Ms. Yu Rumin is interested under the Securities Future Ordinance (the "**SFO**"). For details, please refer to page 24 of this report.

Ms. Yu Rumin (於茹敏女士), aged 43, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. Ms. Yu joined our Group as a manager in the enamelled wire business development department of Nanfang Communication in May 2001 and was appointed as a vice general manager of Nanfang Communication in October 2011. Ms. Yu is primarily responsible for overseeing business development, financial control and human resources management. Ms. Yu is also a director of each of Century Planet, Nanfang Hong Kong, Yingke and Nanfang Optic.

Ms. Yu graduated from Jiangsu Teachers University of Technology (江蘇技術師範學院) (currently known as Jiangsu University of Technology (江蘇理工學院)) in July 2004 with a major of financial accounting education. She is a qualified senior economist (高級經濟師) and a certified tax planner (注冊納税籌劃師). Ms. Yu has over 15 years of experience in communication optical cable industry. Prior to joining the Group, Ms. Yu worked for Luoyang Town's People's Government of Wujin District (武進區洛陽鎮人民政府) between 1996 and 2001.

Ms. Yu is the spouse of Mr. Shi Ming, sister of Ms. Yu Ruping and daughter of Mr. Yu Jinlai.

Ms. Yu is a controlling shareholder of the Company. As founder of a discretionary trust, she is taken to be interested in the 840,000,000 Shares held by Pacific Mind Development Limited ("**Pacific Mind**") by virtue of the SFO. For details, please refer to page 24 of this report.

Ms. Yu Ruping (於茹萍女士), aged 44, was appointed as our Director on 10 May 2016 and was designated as our executive Director on 22 June 2016. Ms. Yu RP joined our Group as a finance officer of Nanfang Communication in September 2006, and has been mainly responsible for supervising the accounting and internal audit functions of the Group. Ms. Yu RP is a director of each of Century Planet, Nanfang Hong Kong and MacroSmart. She is also a supervisor of Nanfang Optic.

Ms. Yu RP completed a three-year study programme in pharmacy at the Professional School of Health Work of Wu Jin of Changzhou (常州市武進衛生職工中等專業學校) in December 2003. Ms. Yu RP has over 10 years of experience in communication optical cable industry. She is a certified tax planner (註冊納稅籌劃師).

Ms. Yu RP is the sister of Ms. Yu Rumin, daughter of Mr. Yu Jinlai and sister-in-law of Mr. Shi Ming.

Ms. Yu RP is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since she is a beneficiary of a discretionary trust. For details, please refer to page 24 of this report.

NON-EXECUTIVE DIRECTOR

Mr. Yu Jinlai (於金來先生), aged 71, was appointed as our Director on 10 May 2016 and was designated as our non-executive Director on 22 June 2016. He is the chairman of the Board. Mr. Yu has been acting as the legal representative of Nanfang Communication since July 1992 when Nanfang Communication was first established. He has been a director of Nanfang Communication since 1998. He is mainly responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Yu is also a director of MacroSmart and Yingke.

Mr. Yu obtained an executive master course certificate in business administration from Shanghai Jiaotong University (上海交通大學) in November 2008. Mr. Yu has over 25 years of experience in enterprise management. Since May 1987, Mr. Yu has been a director of Changzhou Jingke Company Limited (常州精科實業有限公司), a company established in the PRC focusing on the manufacturing and sales of clocks and watches.

Mr. Yu is the father of Ms. Yu Rumin and Ms. Yu Ruping and father-in-law of Mr. Shi Ming.

Mr. Yu is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since he is a beneficiary of a discretionary trust. For details, please refer to page 24 of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Wing Kuen (胡永權先生), aged 63, was appointed as our independent non-executive Director on 24 November 2016. Mr. Wu was awarded a Bronze Bauhinia Star from the Hong Kong Government in July 2012 in recognition for his meritorious public and community services. Mr. Wu is currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund. He is a member of the Appeal Tribunal Panel of the Planning and Lands Branch of the Development Bureau of the Hong Kong Government.

Mr. Wu is currently the independent non-executive director of EFT Solutions Holdings Limited (stock code: 8062), Food Idea Holdings Limited (stock code: 8179), Million Cities Holdings Limited (stock code: 2892) and HongGuang Lighting Holdings Company Limited (stock code: 6908, with previous stock code: 8343 prior to the transfer to Main Board of the Stock Exchange in November 2019.)

Mr. Chan Kai Wing (陳繼榮先生), aged 59, was appointed as our independent non-executive Director on 24 November 2016. Mr. Chan has over 30 years of professional experience in auditing and accounting, corporate financial management and financial advisory services. Mr. Chan obtained a bachelor degree of economics from Macquarie University, Australia in April 1986. He is a fellow member of CPA Australia.

Mr. Chan is currently the independent non-executive director of China Assurance Finance Group Limited (stock code: 8090) and China Conch Venture Holdings Limited (stock code: 586). Mr. Chan was an independent non-executive director of Bisu Technology Group International Limited (stock code: 1372) from July 2015 to February 2019.

Mr. Lam Chi Keung (林芝強先生), aged 49, was appointed as our independent non-executive Director on 24 November 2016. Mr. Lam has over 23 years of professional experience in accounting and financial management and held various finance/accounting-related positions in international accounting firms and companies. Mr. Lam obtained a bachelor degree of science in accounting from Brigham Young University-Hawaii in December 1996. He also obtained a master degree of science in e-commerce from the Chinese University of Hong Kong in December 2002. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and a member of the American Institute of Certified Public Accountants.

Mr. Lam is currently an independent non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046).

SENIOR MANAGEMENT'S PROFILE

Mr. Huang Zhengou (黃正歐先生), aged 58, was appointed as the deputy general manager and head of production management centre of Nanfang Communication in 2016. He joined Nanfang Communication in November 2012 as a technical supervisor (技術總監) and was appointed as general manager of the manufacturing and operation centre of Nanfang Communication in December 2017. Mr. Huang is mainly responsible for the overall manufacturing and operation management and research and development of new products of the Group. Mr. Huang graduated from Yangzhou Industry Technical College (揚州工業專科學校) in December 1981 with major in machinery manufacturing. Mr. Huang completed machinery design and manufacturing courses at Mechanical Engineer Further Education University (機械工程師進修大學) in October 1989. Mr. Huang is a qualified senior engineer (高級工程師).

Prior to joining the Group, Mr. Huang worked for Yangzhou Tianhong Optical Cable Co., Ltd (揚州天虹光纜有限公司), a company with principal activity in production of optical fibre cables and electrical cables, as the chief engineer between 1994 and 2007. Between 2007 and 2012, Mr. Huang served as chief engineer at Hubei Kaile Science and Technology Company Limited (湖北凱樂科技股份有限公司), a company whose A shares are listed on the Shanghai Stock Exchange (stock code: 600260) with principal activity in production of optical fibre cables.

Directors' and Senior Management's Profile

Mr. Zhu Xiaolei (朱曉雷先生), aged 51, was appointed as our general manager in sales in March 2016. Mr. Zhu joined the Group as a sales personnel in May 1997. Mr. Zhu is mainly responsible for supervising the overall sales strategies and bidding process of the Group. Mr. Zhu completed a three-year professional study in economic management from Cadre Correspondence School of CPC Jiangsu Provincial Party School (中共江蘇省委黨校幹部函授學院) in July 2008.

Prior to joining the Group, Mr. Zhu worked as a branch manager at Jiangsu Shinco Electronics Group Company Limited (江蘇新科電子集團有限公司), a company with principal activity in production of consumer electronic products, between 1991 and 1996.

Ms. Dong Chunlan (董春蘭女士), aged 48, was appointed as a head of supply chain management centre in March 2016. She joined the Group as an operation management officer in May 2009. Ms. Dong is mainly responsible for managing material procurement and logistics of the Group. Ms. Dong graduated from Qinghai University (青海大學) with a bachelor degree in chemical engineering in July 1993. She also obtained a bachelor degree in industrial foreign trade from Nanjing University of Science and Technology (南京理工大學) in June 1997.

Prior to joining the Group, Ms. Dong served as head of procurement department of Nanjing Guorui Technology (Group) Co., Ltd (南京國瑞科技(集團)有限公司), a company with principal activity in softwares development, between 2001 and 2003. She worked as a procurement manager for Nanjing Ingersoll Rand Compressor Co., Ltd (南京英格索蘭壓縮機有限公司), a company with principal activity in manufacturing of air compressors, between 2003 and 2009.

Ms. Lo Moon Fong (羅滿芳女士), aged 44, was appointed as the company secretary and finance manager in June 2016. She is responsible for financial reporting and compliance of the Group. Ms. Lo graduated with a bachelor degree in business administration from the Hong Kong University of Science and Technology in November 1998. She is a member of the HKICPA and is a Certified Financial Planner.

Ms. Lo has over 20 years of experience in the accounting, tax and finance industry. Between August 1998 and October 2006, Ms. Lo worked in PricewaterhouseCoopers Limited in Hong Kong, specialising in tax services. Between September 2006 and June 2015, she worked in Convoy Financial Services Limited providing financial management and advisory services. Ms. Lo was the company secretary of New City Development Group Limited (stock code: 456), whose shares are listed on the Main Board of the Stock Exchange and a company with principal activity in property development and investment in the PRC, between April 2012 and July 2015.

Report of the Directors

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in manufacturing and sales of optical fibre cables and related devices in the PRC. Details of the principal activities of its subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on page 45 to 47 of this report.

The Board recommended the payment of a final dividend of RMB0.035 per ordinary share for the year ended 31 December 2019 to shareholders of the Company. The proposed final dividend for the year ended 31 December 2019 has been approved at the Company's Board meeting on 31 March 2020 and is subject to approval by shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"). Details of the dividends for the year ended 31 December 2019 are set forth in note 13 to the consolidated financial statements.

BUSINESS REVIEW

Details of which, are set out in the paragraph headed "Chairman's Statement" on pages 6 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers contributed approximately 66.96% of the Group's total purchase. The Group held 49% interest in Nanfang Optic, being the largest supplier, which has contributed to approximately 46.33% of the Group's total purchase.

The Group sold products directly to customers which included the Major PRC Telecommunication Network Operators. The largest customer has accounted for approximately 52.92% of the total sales. The Group's entire sales came from its top five customers. Save as disclosed above, none of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 31 to the consolidated financial statement.

Report of the Directors

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the aggregate of reserves and share premium less accumulated losses. Under the Companies Law of the Cayman Islands, the special reserve and share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles (as defined below) and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2019, the Company's reserves available for distribution are as follows:

	RMB'000
Share premium	214,255
Retained profits	50,948
	265,203

DIRECTORS

The Directors during the year and up to the date of this report were:

Chairman and Non-Executive Director

Mr. Yu Jinlai

Executive Directors

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

Independent Non-Executive Directors

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

In accordance with the articles of association of the Company (the "**Articles**"), Mr. Yu Jinlai, Mr. Shi Ming and Mr. Wu Wing Kuen shall retire from office and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmation of independence from each of the independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company on 24 November 2016 commencing from the date of Listing, and subsequently for another time of three years in December 2019 upon the expiration of the previous service agreement, for a term of three years and such service agreements may be terminated in accordance with the terms of the service agreements.

Each of the non-executive Director and independent non-executive Directors was appointed by the Board pursuant to their respective letters of appointment dated 24 November 2016 commencing from the date of Listing, and subsequently for another term of three years in December 2019 upon the expiration of the previous letter, for a term of three year and such appointment may be terminated in accordance with the terms of the letters of appointment.

All the Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles.

Saved as disclosed in this report, no Director has a service contract that is not determinable within one year without payment of compensation, other than statutory compensation.

Each of the executive Directors is entitled to a basic salary pursuant to their respective service agreement which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. In addition, each of them is entitled to a bonus of such amount as the Board may determine in respect of each complete financial year of the Company.

Each of the non-executive Director and independent non-executive Directors is entitled to a Director's fee pursuant to their respective letter of appointment, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. Save for Director's fee, none of the non-executive Director and independent non-executive Directors is expected to receive any other remuneration for holding his office as a non-executive Director or an independent non-executive Director respectively.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the Directors and controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group during the year and up to the date of this report.

Controlling shareholders' interest in contracts

Save as the related party transactions disclosed in note 36 to the consolidated financial statements, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which any of the controlling shareholder (as defined in the Listing Rules) had a material interest subsisted at the end of the year or at any time during the year.

Non-competition undertaking by controlling shareholders

Each of the controlling shareholders has made an annual declaration in respect of their compliance with the terms of non-competition undertaking. Details of the non-competition undertaking are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

Report of the Directors

Directors' interest in contracts

Save as disclosed in the Prospectus and this report, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Management Contracts

No contracts, other than a contract of service with any executive Director or any person engaged under the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

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

As at 31 December 2019, 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 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)	75
Mr. Yu Jinlai [(3)]	Beneficiary of a discretionary trust	840,000,000 (L)	75
Ms. Yu Ruping [(3)]	Beneficiary of a discretionary trust	840,000,000 (L)	75
Mr. Shi Ming [(4)]	Interests of spouse	840,000,000 (L)	75

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 75% 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 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 it therefore deemed under the SFO to be interested in the shares held by Ms. Yu Rumin.

Save as disclosed above, as at 31 December 2019, 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.

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 was 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 may, at its discretion, grant options to subscribe for shares in 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 Participants 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 shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's 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.

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 shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme for the year ended 31 December 2019 and there was no outstanding share option as at 1 January 2019 and 31 December 2019.

No share-based payment expense was recognised for the year ended 31 December 2019 in relation to share options granted by the Company.

As the date of this report, the Company may grant up to 112,000,000 share option under the Share Option Scheme, which represented 10% of the Company's share in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

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 31 December 2019, 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 (2)
Pacific Mind Development Limited (3)	Beneficial owner	840,000,000 (L)	75
UBS TC (Jersey) Limited (4)	Trustee	840,000,000 (L)	75
UBS Nominee Limited (4)	Interested in controlled corporation	840,000,000 (L)	75
Ms. Zhu Qinying (5)	Interest of spouse	840,000,000 (L)	75
Mr. Yu Jianguang (6)	Interest of spouse	840,000,000 (L)	75
Citigroup Inc. (7)	Person having a security interest in shares	57,816,309 (L)	5.16
	Interest in controlled corporation	3,523,691 (L) 3,523,691 (S)	0.31 0.31
	Approved lending agent	103,998 (P)	0.00
ICBC International Asset Management Limited	Investment manager	56,480,000 (L)	5.04

Notes:

(1) The letter "L", "S" and "P" respectively denotes the person's "long position", "short position" and "lending pool" (as defined under Part XV of the SFO) in the relevant shares.

(2) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2019.

(3) Pacific Mind owned 840,000,000 Shares, representing 75% 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 the Trustee. 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.

(4) UBS TC (Jersey) Ltd as trustee of the Family Trust, which was established by Ms. Yu Rumin as settlor in favour of the beneficiaries of the Family Trust, held 100% of the issued share capital of UBS Nominee Limited, which in turn held 100% of the issued share capital of Pacific Mind.

(5) 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.

(6) 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.

(7) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Citigroup Inc., as at 31 December 2019, Citigroup Inc. was deemed to be interested in 61,443,998 Shares (L), 3,523,691 Shares (S) and 103,998 Shares (P). These shares were held by Citicorp LLC, Citibank, N.A., Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Bahamas Limited and Citigroup Global Markets Limited, which were directly or indirectly controlled by Citigroup Inc. Citigroup Inc. was deemed to be interested in the shares held by such companies by virtue of the SFO.

Save as disclosed above, as at 31 December 2019, 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.

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 during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

DONATION

During the year ended 31 December 2019, the Group made charitable and other donations amounting to RMB794,200 (2018: RMB993,500).

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 18 June 2020 (Thursday) to 23 June 2020 (Tuesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 17 June 2020 (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 2 July 2020 (Thursday) to 6 July 2020 (Monday), both days inclusive. The record date will be 6 July 2020 (Monday). The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 30 June 2020 (Tuesday). During the above closure periods, no transfer of shares will be registered. The proposed final dividend will be paid on 7 August 2020 (Friday) subject to the approval at the AGM.

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

AUDITOR

A resolution will be submitted to the forthcoming AGM to re-appoint Messers. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yu Jinlai
Chairman

31 March 2020, Hong Kong

Corporate Governance 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 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2019. 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 year ended 31 December 2019.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board against liability for compensation arising from their corporate activities. Purchase of liability insurance can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed by the Company on an annual basis. Save as disclosed, no permitted indemnity provision (whether made by the Company or otherwise) is in force for the benefit of one or more Directors.

PUBLICATION OF THE ANNUAL REPORT

The Company's 2019 annual report will be despatched to the Company's shareholders on or before 29 April 2020 and will be available at the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

ANNUAL GENERAL MEETING

The AGM will be held on 23 June 2020 (Tuesday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

THE BOARD OF DIRECTORS

Composition and role of the Board

The Board is comprised of three executive Directors, one non-executive Director and three independent non-executive Directors, which includes:

Chairman and non-executive Director	:	Mr. Yu Jinlai
Executive Directors	:	Mr. Shi Ming *(Chief executive officer)* Ms. Yu Rumin Ms. Yu Ruping
Independent non-executive Directors	:	Mr. Wu Wing Kuen Mr. Lam Chi Keung Mr. Chan Kai Wing

Biographical details (including age, gender and length of service) of the Board members are set out on pages 17 to 19 of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

According to Code provision A.4.1 of the CG Code, non-executive Directors shall be appointed for a specific term, subject to re-election. CG Code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation at least once every three years. The Articles require that at each annual general meeting at least one-third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

In accordance with the Articles, Mr. Yu Jinlai, Mr. Shi Ming and Mr. Wu Wing Kuen shall retire from office, and, being eligible, offer themselves for re-election at the forthcoming AGM.

Corporate Governance Report

ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Group. The Board oversees the Group's business operation, strategic development and financial performance. Directors of the Board take decisions objectively in the interests of the Group. All board members have a broad range of valuable business experience and competence to contribute to the Board.

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors, senior management and certain specific responsibilities to the Board Committees (as defined below).

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to Code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2019 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

The individual training record of each Director received for the year ended 31 December 2019 is summarized below:

Names of Directors	Attending or participating in seminars/conferences/ corporate events or visits/ reading relevant to the business/Directors' duties
Chairman and non-executive Director	
Mr. Yu Jinlai	✓
Executive Directors	
Mr. Shi Ming *(Chief executive officer)*	✓
Ms. Yu Rumin	✓
Ms. Yu Ruping	✓
Independent non-executive Directors	
Mr. Wu Wing Kuen	✓
Mr. Lam Chi Keung	✓
Mr. Chan Kai Wing	✓

BOARD MEETING

The Board is committed to holding regular board meetings at least four times a year at approximately quarterly intervals. The Group establishes an effective communication among all the Directors.

The attendance record of each director at the above-mentioned board meeting and the annual general meeting held in 2019 has been set out below.

	Attendance/Number of	
Name of Directors	**Board meeting**	**Annual general meeting held in 2019**
Chairman and non-executive Director		
Mr. Yu Jinlai	4/4	
Executive Directors		
Mr. Shi Ming *(Chief executive officer)*	4/4	✓
Ms. Yu Rumin	4/4	✓
Ms. Yu Ruping	4/4	
Independent non-executive Directors		
Mr. Wu Wing Kuen	3/4	✓
Mr. Lam Chi Keung	4/4	✓
Mr. Chan Kai Wing	3/4	✓

Mr. Yu Jinlai and Ms. Yu Ruping did not attend the annual general meeting of the Company held in 2019 due to fulfillment of other job engagement.

BOARD COMMITTEES

The Board has established three committees, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, "**Board Committees**"), to oversee different aspects of the Group's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

Our Company established the Audit Committee on 24 November 2016 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules have been adopted. The primary roles of the Audit Committee include, but not limited to, (a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing the financial controls, internal control and risk management systems. 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, and he possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules. The quorum of meetings of the Audit Committee shall be any two members. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee will hold at least two meetings a year and will also meet the external auditor at least twice a year without the presence of the executive Directors. Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2019, the Audit Committee held two meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and access significant issues arising from the work conducted.

Names of members	**Attendance/Number of meetings**
Mr. Lam Chi Keung *(Chairman)*	2/2
Mr. Wu Wing Kuen	1/2
Mr. Chan Kai Wing	2/2

REMUNERATION COMMITTEE

Our Company established the Remuneration Committee on 24 November 2016 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code have been adopted. The primary roles of the Remuneration Committee include, but are not limited to, (a) making recommendations to the Board on the policy and structure for the remuneration of all of the Directors and senior management personnel and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (c) making recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee consists of three members, namely, Ms. Yu Rumin, Mr. Chan Kai Wing and Mr. Wu Wing Kuen. Mr. Wu Wing Kuen is the chairman of the Remuneration Committee. The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

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 senior management of the Group and other related matters. Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2019, the Remuneration Committee held one meeting for reviewing the remuneration package of the Directors of the Company and approving the proposed remuneration of senior management.

Names of members	**Attendance/Number of meetings**
Mr. Wu Wing Kuen *(Chairman)*	1/1
Ms. Yu Rumin	1/1
Mr. Chan Kai Wing	1/1

NOMINATION COMMITTEE

Our Company established the Nomination Committee on 24 November 2016 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code have been adopted. The primary roles of the Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become the Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and (c) assessing the independence of the independent non-executive Directors. The Nomination Committee consists of three members, namely, Mr. Yu Jinlai, Mr. Lam Chi Keung and Mr. Chan Kai Wing. Mr. Yu is the chairman of the Nomination Committee. The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

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. Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2019, the Nomination Committee reviewed the composition of the Board and the retirement and re-election of Directors. The Committee held one meeting during the year and the attendance records of the members at the meeting are set out below:

Names of members	Attendance/Number of meetings
Mr. Yu Jinlai (Chairman)	1/1
Mr. Lam Chi Keung	1/1
Mr. Chan Kai Wing	1/1

Nomination Policy

The Board has adopted the nomination policy (the "**Nomination Policy**") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

1. identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

2. evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

3. reviewing the profiles of the shortlisted candidates and interview them; and

4. making recommendations to the Board on the selected candidates.

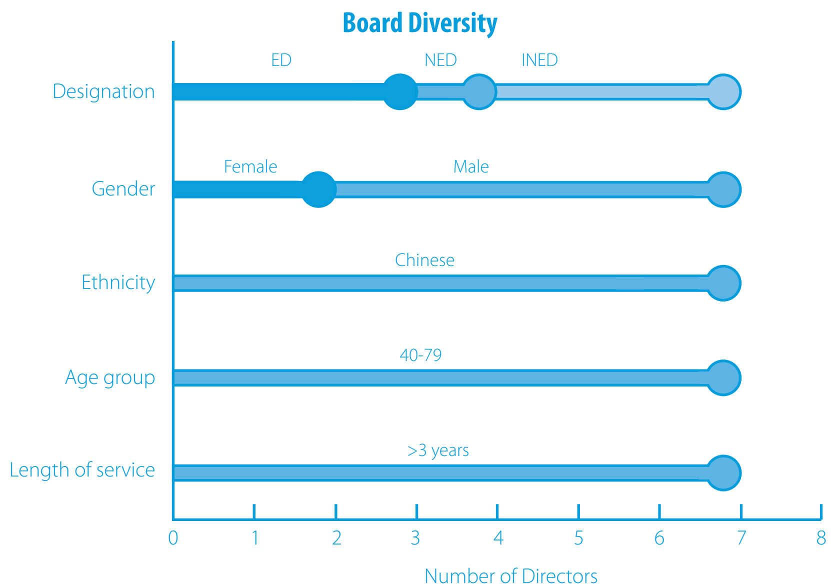
The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Diversity Policy

The Board adopted its Board Diversity Policy in November 2016. A summary of the policy is as follows:

In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will disclose annually, in the corporate governance report, on the Board's composition under diversified perspectives (including gender, age, cultural and educational background, or professional experience), and monitor the implementation of this policy. The Nomination Committee will also review the diversity policy, as appropriate, to ensure the effectiveness of the diversity policy. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

As at 31 December 2019, the Board's composition under major diversity perspectives was summarised as follows:



ED: Executive Director
NED: Non-Executive Director
INED: Independent Non-Executive Director

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2019 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to the Company's external auditor in respect of audit and non-audit services for the year ended 31 December 2019 are as follows:

Nature of services	**Amount** (RMB'000)
Audit services	1,300
Other assurance services	0
Non-assurance services	21

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has adopted full disclosure of remunerations of Directors with disclosure by name, amount and type in note 11 to the financial statements.

The remuneration of the members of senior management by bands in 2019 is set out below:

Remuneration bands	Number of individuals
Nil – HK$1,000,000	4

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 45 to 47 of this report. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditor's Report" on pages 40 to 44 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective risk management and internal control system to safeguard the Group' assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

During the year ended 31 December 2019 and up to the date of this report, the Board, through the Audit Committee meetings which were held twice during the year, conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers the Group's risk management and internal control is adequate and effective.

COMPANY SECRETARY

During the year ended 31 December 2019, the company secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles, an extraordinary general meeting ("**EGM**") may be convened by the Board on a written requisition of any one or more shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, the Company has not made any changes to its Articles.

Independent Auditor's Report

Deloitte.

德勤

To the Members of Nanfang Communication Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Nanfang Communication Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 45 to 108, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Impairment assessment of trade receivables

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period.

As at 31 December 2019, the Group's net trade receivables amounting to approximately RMB385.2 million, which represented approximately 29% of total assets of the Group.

As disclosed in note 34 to the consolidated financial statements, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of lifetime ECL of trade receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

As disclosed in note 34 to the consolidated financial statements, the Group recognised an additional amount of RMB0.6 million of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to approximately RMB5.9 million.

How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of trade receivables included:

- Understanding key controls on how the management estimates the loss allowance for trade receivables;
- Testing the integrity of information used by management for impairment assessment, including trade receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, including their identification of credit-impaired trade receivables, and the basis of estimated loss rates applied in each debtor in the impairment assessment (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 4, 20 and 34 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is K. W. Yim.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
		Year ended 31 December	
Revenue	5	**534,327**	900,300
Cost of sales		**(404,781)**	(673,627)
Gross profit		**129,546**	226,673
Other income, gains, expenses and losses, net	7	**20,376**	12,328
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	34	**(1,029)**	(1,269)
Selling and distribution expenses		**(18,670)**	(16,927)
Administrative expenses		**(41,342)**	(37,276)
Research costs		**(30,236)**	(45,709)
Finance costs	8	**(10,421)**	(6,043)
Share of (loss) profit of an associate		**(11,014)**	35,444
Share of profit of a joint venture		**4,554**	1,322
Profit before tax	10	**41,764**	168,543
Income tax expense	9	**(7,908)**	(27,111)
Profit and total comprehensive income for the year		**33,856**	141,432
Earnings per share	12		
– Basic		**RMB0.03**	RMB0.13

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
		At 31 December	
NON-CURRENT ASSETS			
Property, plant and equipment	14	**107,995**	110,072
Right-of-use assets	15	**30,054**	–
Prepaid lease payments	16	**–**	24,194
Interest in an associate	17	**101,614**	116,867
Interest in a joint venture	18	**82,376**	77,822
Prepayments for acquiring property, plant and equipment and prepaid expenses	21	**2,173**	8,164
Bank deposits with original maturity more than three months	22	**98,428**	3,035
Deferred tax assets	29	**4,265**	5,336
		426,905	345,490
CURRENT ASSETS			
Inventories	19	**45,024**	50,277
Trade and bills receivables	20	**405,176**	539,319
Prepaid lease payments	16	**–**	519
Prepayments, deposits and other receivables	21	**29,975**	82,869
Restricted bank deposits and balances	22	**67,200**	73,618
Bank deposits with original maturity more than three months	22	**44,680**	–
Bank deposits, bank balances and cash	22	**318,697**	403,298
		910,752	1,149,900
CURRENT LIABILITIES			
Trade payables	24	**152,160**	186,588
Bills payable	25	**134,019**	114,113
Other payables	26	**68,975**	89,747
Contract liabilities	27	**388**	19
Lease liabilities	28	**824**	–
Bank borrowings	23	**110,000**	200,000
Tax liabilities		**31,357**	35,877
		497,723	626,344
NET CURRENT ASSETS		**413,029**	523,556
TOTAL ASSETS LESS CURRENT LIABILITIES		**839,934**	869,046

Consolidated Statement of Financial Position (Continued)

As at 31 December 2019

	Notes	At 31 December 2019 RMB'000	2018 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**997**	997
Reserves		**813,234**	849,378
TOTAL EQUITY		**814,231**	850,375
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	**9,125**	7,587
Deferred income – government grants	30	**15,585**	11,084
Lease liabilities	28	**993**	–
		25,703	18,671
		839,934	869,046

The consolidated financial statements on pages 45 to 108 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Shi Ming
Director

Yu Rumin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 *(Note (b))*	Surplus reserve RMB'000 *(Note (a))*	Retained profits RMB'000	Total RMB'000
At 1 January 2018	997	214,255	113,295	38,878	413,934	781,359
Profit and total comprehensive income for the year	–	–	–	–	141,432	141,432
Appropriation for the year	–	–	–	23,548	(23,548)	–
Dividend paid *(Note 13)*	–	–	–	–	(72,416)	(72,416)
At 31 December 2018	**997**	**214,255**	**113,295**	**62,426**	**459,402**	**850,375**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**33,856**	**33,856**
Appropriation for the year	**–**	**–**	**–**	**4,356**	**(4,356)**	**–**
Dividend paid *(Note 13)*	**–**	**–**	**–**	**–**	**(70,000)**	**(70,000)**
At 31 December 2019	**997**	**214,255**	**113,295**	**66,782**	**418,902**	**814,231**

Notes:

(a) As stipulated by the relevant laws and regulations, the Company's subsidiaries in The People's Republic of China 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**41,764**	168,543
Adjustments for:		
Interest income	**(12,565)**	(4,956)
Depreciation of property, plant and equipment	**2,896**	1,831
Depreciation of right-of-use assets	**1,198**	–
Release of prepaid lease payments	**–**	527
Write-off of property, plant and equipment	**53**	–
Gain on disposals of property, plant and equipment, net	**–**	(134)
Government grants recognised	**(233)**	(229)
Foreign exchange gains, net	**(937)**	(583)
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	**1,029**	1,269
Finance costs	**10,421**	6,043
Share of loss (profit) of an associate	**11,014**	(35,444)
Share of profit of a joint venture	**(4,554)**	(1,322)
Operating cash flows before movements in working capital	**50,086**	135,545
Decrease in inventories	**22,298**	24,115
Decrease (increase) in trade, bills and other receivables, deposits and prepayments	**149,434**	(77,425)
Increase in restricted bank deposits and balances	**–**	(1,830)
(Decrease) increase in trade, bills and other payables	**(35,151)**	52,581
Increase (decrease) in contract liabilities	**369**	(796)
Cash generated from operations	**187,036**	132,190
Income tax paid	**(9,819)**	(26,850)
NET CASH FROM OPERATING ACTIVITIES	**177,217**	105,340
INVESTING ACTIVITIES		
Purchases of property, plant and equipment, right-of-use assets and prepaid lease payments	**(7,475)**	(36,474)
Proceeds from disposal of property, plant and equipment	**–**	229
Placement of bank deposits with original maturity more than three months	**(134,500)**	(3,035)
Withdrawal of bank deposits with original maturity more than three months	**–**	51,886
Placement of restricted bank deposits and balances	**(200,569)**	–
Withdrawal of restricted bank deposits and balances	**207,020**	–
Investment in a joint venture	**–**	(75,990)
Interest received	**6,959**	4,956
Government grants received	**4,734**	351
Loan to Pacific Smart Development Limited	**–**	(54,906)
Repayment from Pacific Smart Development Limited	**36,630**	–
NET CASH USED IN INVESTING ACTIVITIES	**(87,201)**	(112,983)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**250,000**	250,000
Repayments of bank borrowings	**(340,000)**	(100,000)
Repayments to the ultimate holding company	**(3,574)**	(2,583)
Payments of interest expense on bank borrowings	**(10,366)**	(6,043)
Dividend paid	**(70,000)**	(72,416)
Interest paid on lease liabilities	**(55)**	–
Payments of lease liabilities	**(668)**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(174,663)**	68,958
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(84,647)**	61,315
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**403,298**	341,400
Effect of exchange rate changes on the balances of cash held in foreign currencies	**46**	583
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by:		
Bank deposits, bank balances and cash	**318,697**	403,298

1. GENERAL INFORMATION

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee for the first time in the current year:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015-2017 Cycle*

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review; and

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

IFRS 16 *Leases* (continued)

As a lessee (continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** RMB'000
Reclassified from prepaid lease payments	*(a)*	24,713
By class:		
Leasehold lands		24,713

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2018** RMB'000	**Adjustments** RMB'000	**Carrying amounts under IFRS 16 at 1 January 2019** RMB'000
NON-CURRENT ASSETS				
Prepaid lease payments	*(a)*	24,194	(24,194)	–
Right-of-use assets	*(a)*	–	24,713	24,713
CURRENT ASSETS				
Prepaid lease payments	*(a)*	519	(519)	–

Note:

(a) Upfront payments for leasehold land in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB519,000 and RMB24,194,000 respectively were reclassified to right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[5]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
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 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-Based Payment*, leasing transactions that are within the scope of IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets* ("**IAS 36**").

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

– has the power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in an associate and a joint venture (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9 *Financial Instruments* ("**IFRS 9**"), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the associate or joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on property, plant and equipment and right-of-use assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in an associate and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of ail identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Short-term leases

The Group applies the short-term lease recognition exemption to leases of building that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the increment borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as lessee (prior to 1 January 2019 (continued)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When the Group makes payment for a ownership interest which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) and as "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of raw materials are determined based on a "first-in-first-out" basis and costs of work-in-progress and finished goods are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government. The Group's contributions to the defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions as incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Besides, the Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value except for trade and bills receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset and a financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost.

For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade, bills and other receivables, bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances, which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are individually assessed.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade, bills and other receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including bank borrowings, trade, bills and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue from sales of optical fibre cables, optical distribution network devices and other materials are recognised when the control of goods is transferred, being they have been shipped to the customer's specific location based on the quantity of optical fibre cables, optical distribution network devices and other materials received by the customers. A receivable is recognised by the Group when the goods are delivered to the customer's specific location and received by the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers. No provision for returns of optical fibre cables, optical distribution network devices and other materials are set out in the relevant sales agreements, unless they could be replaced if there are quality problems found.

Revenue from the sale of electricity is recognised based on the meter reading of watts of electricity transmitted to the power grid of the local power company at a tariff rate agreed with power grid company as approved by the relevant PRC governmental bureau.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimated impairment of trade, bills and other receivables

The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of ECL of trade, bills and other receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 34.

As at 31 December 2019, the Group's net carrying amount of trade receivables was RMB385,210,000 (net of allowance for credit losses of RMB5,857,000) (2018: RMB531,458,000 (net of allowance for credit losses of RMB6,055,000)).

As at 31 December 2019, the Group's carrying amount of bills receivable was RMB19,966,000 (2018: RMB7,861,000). The ECL for the Group's bills receivable is insignificant.

As at 31 December 2019, the Group's net carrying amount of other receivables was RMB25,618,000 (net of allowance for credit losses of RMB409,000) (2018: RMB64,559,000 (net of allowance for credit losses of nil)).

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses in the consolidated statement of financial position. The estimation of their useful lives is the key element for the annual depreciation expense. Management estimates useful lives of property, plant and equipment (other than construction in progress) based on their experience and historical production statistics. Should the useful lives of the Group's property, plant and equipment (other than construction in progress) be deviated from the estimation, higher/lower depreciation expense would lead to a decrease/increase the Group's profit respectively. Property, plant and equipment are reviewed for any indication of impairment at the end of the reporting period and recoverable amount of the asset is estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to where the asset belongs. This process requires the management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value is written down to the recoverable amount and the impairment loss is recognised in profit or loss.

As at 31 December 2019, the Group's carrying amount of property, plant and equipment is RMB107,995,000 (2018: RMB110,072,000). No impairment loss on property, plant and equipment was recognised for both years.

Recognition of deferred tax assets

As at 31 December 2019, deferred tax assets of RMB4,265,000 (2018: RMB5,336,000) was recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the periods in which such a situation takes place.

5. 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 as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Optical fibre cables	**502,594**	900,300
Optical distribution network devices	**31,733**	–
	534,327	900,300

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

(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 shipped to the customers' specific locations based on the quantity of optical fibre cables and optical distribution network devices received by the customers. No provision for returns of optical fibre cables and optical distribution network devices are set out in the relevant sales agreements, unless they could be replaced if quality problems are found. A receivable is recognised by the Group when the goods are delivered to the customer's specific location and received by the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once the goods are received by the customers. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 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 twelve 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 other customers with good repayment history. The Group does not obtain collateral from customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations in relation to sale of optical fibre cables and optical distribution network devices are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

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

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

Geographical information

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

Major customers

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Customer A	**238,100**	394,139
Customer B	**282,771**	314,046
Customer C	*** N/A**	148,353

* The revenue from this customer was less than 10% of the Group's revenue in the relevant year.

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Bank interest income	**9,195**	4,956
Other interest income	**3,370**	–
Foreign exchange gain, net	**974**	1,677
Sale of electricity and gain on sales of other materials	**1,328**	2,163
Government grants recognised *(Note)*	**5,523**	3,399
Gain on disposals of property, plant and equipment, net	**–**	134
Write-off of property, plant and equipment	**(53)**	–
Others	**39**	(1)
	20,376	12,328

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

Besides, the government grants recognised included the release of deferred income of RMB233,000 (2018: RMB229,000) during the year (Note 30).

8. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank borrowings	**10,366**	6,043
Interest on lease liabilities	**55**	–
	10,421	6,043

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**5,299**	14,181
– Deferred tax *(Note 29)*	**2,609**	12,930
Total income tax recognised in profit or loss	**7,908**	27,111

No provision for income taxes of the Company and its certain subsidiaries, Century Planet Limited ("**Century Planet**"), Nanfang Communication Group Limited ("**Nanfang Hong Kong**") and MacroSmart Investment Limited ("**MacroSmart**") in respect of the Cayman Islands, BVI, Hong Kong and the PRC, respectively, was made as they did not earn assessable income therefrom during the year (2018: 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 Nanfang Communication Technology Company Limited ("**Nanfang Communication**"), a 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 year (2018: 15%) pursuant to the relevant regulations. Besides, Jiangsu Yingke Communication Technology Company Limited ("**Yingke**"), a subsidiary of the Company, is also recognised as a "**High and New Technology Enterprise**" during the year. Accordingly Yingke is also entitled to a reduced EIT rate of 15% for the year (2018: 25%).

9. INCOME TAX EXPENSE (CONTINUED)

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**41,764**	168,543
Tax at applicable tax rate at 15% in the PRC during the year *(Note1)*	**6,265**	25,281
Withholding tax on undistributed profits	**1,362**	7,587
Tax effect of expenses not deductible for tax purpose	**1,466**	1,658
Additional tax benefit applicable to the Group *(Note 2)*	**(3,402)**	(5,142)
Effect of share of results of an associate	**1,652**	(5,317)
Effect of share of results of a joint venture	**(683)**	(198)
Effect of a subsidiary subject to different applicable tax rate	**–**	3,242
Effect of change in EIT rate applicable to a subsidiary	**1,073**	–
Effect of unrealised loss attributable to purchases from an associate	**175**	–
Income tax expense for the year	**7,908**	27,111

Notes:

1. For the year ended 31 December 2019, the PRC EIT rate of 15% is applicable to Nanfang Communication and Yingke that account for substantial operation of the Group.

   For the year ended 31 December 2018, the PRC EIT rate of 15% is applicable to Nanfang Communication that accounts for substantial operation of the Group.

2. Pursuant to the relevant tax rules and regulations, expenses in research nature are entitled to additional tax deduction at 75% (2018: 75%) of the cost incurred.

10. PROFIT BEFORE TAX

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**15,702**	13,355
Less: Depreciation capitalised in inventories	**(12,806)**	(11,524)
	2,896	1,831
Depreciation of right-of-use assets	**1,198**	–
Release of prepaid lease payments	**–**	527
Auditor's remuneration	**1,400**	1,300
Staff costs (including the Directors' remuneration as disclosed in note 11 below):		
Salaries, wages and allowances	**36,639**	38,147
Retirement benefit scheme contributions	**4,646**	4,044
Total staff costs	**41,285**	42,191
Cost of inventories recognised as cost of sales	**404,781**	673,627

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the Directors during the year are as follows:

	Fees RMB'000	Salaries, wages, and allowances RMB'000	Discretionary bonuses RMB'000 *(Note)*	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2019					
Executive Directors					
Mr. Shi Ming	360	767	758	249	2,134
Ms. Yu Rumin	600	–	–	15	615
Ms. Yu Ruping	–	135	508	42	685
Non-executive Director					
Mr. Yu Jinlai	–	251	–	–	251
Independent non-executive Directors					
Mr. Wu Wing Kuen	190	–	–	–	190
Mr. Lam Chi Keung	169	–	–	–	169
Mr. Chan Kai Wing	169	–	–	–	169
	1,488	1,153	1,266	306	4,213

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors (Continued)

	Fees RMB'000	Salaries, wages, and allowances RMB'000	Discretionary bonuses RMB'000 *(Note)*	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2018					
Executive Directors					
Mr. Shi Ming	360	798	758	260	2,176
Ms. Yu Rumin	600	12	–	19	631
Ms. Yu Ruping	63	141	508	46	758
Non-executive Director					
Mr. Yu Jinlai	15	250	–	–	265
Independent non-executive Directors					
Mr. Wu Wing Kuen	183	–	–	–	183
Mr. Lam Chi Keung	162	–	–	–	162
Mr. Chan Kai Wing	162	–	–	–	162
	1,545	1,201	1,266	325	4,337

Note: The discretionary bonuses are determined by reference to the individual performance of the executive Directors and approved by the Remuneration Committee (composed of an executive Director and two independent non-executive Directors).

The executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive Director and independent non-executive Directors shown above were for their services as Directors of the Company.

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2019, 3 individuals (2018: 3 individuals) were Directors whose emoluments are included in the disclosure above. The emoluments of the remaining 2 individuals (2018: 2 individuals) for the year ended 31 December 2019 were as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, wages and allowances	**782**	790
Retirement benefit scheme contributions	**110**	109
	892	899

	Year ended 31 December	
	2019	2018
	(Number of employees)	
Less than HK$1,000,000	**2**	2

Mr. Shi Ming is the chief executive officer of the Company and the general manager of the Group during the year whose emoluments have been included in the above.

During the years ended 31 December 2018 and 2019, no emoluments were paid by the Group to any of the Directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and none of the Directors waived any emoluments.

12. EARNINGS PER SHARE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	**33,856**	141,432

	Year ended 31 December	
	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,120,000**	1,120,000

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

13. DIVIDENDS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2018 Final, paid – RMB0.0625 per ordinary share (2018: HK¢7.5 (equivalent to RMB0.06) per ordinary share)	**70,000**	72,416

Subsequent to the end of the reporting period, the payment of a final dividend of RMB0.035 per ordinary share (2018: RMB0.0625 per ordinary share) in respect of the year ended 31 December 2019, in an aggregate amount of RMB39,200,000 (2018: RMB70,000,000) has been proposed by the Directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2018	62,991	85,072	7,092	8,156	21	163,332
Additions	–	13,760	659	2,154	9,865	26,438
Disposals	–	(461)	–	(747)	–	(1,208)
Transfer	–	4,775	4,056	–	(8,831)	–
At 31 December 2018	62,991	103,146	11,807	9,563	1,055	188,562
Additions	**–**	**9,501**	**3,961**	**–**	**216**	**13,678**
Write-off	**–**	**(1,054)**	**–**	**–**	**–**	**(1,054)**
Transfer	**–**	**522**	**–**	**–**	**(522)**	**–**
At 31 December 2019	**62,991**	**112,115**	**15,768**	**9,563**	**749**	**201,186**
ACCUMULATED DEPRECIATION						
At 1 January 2018	11,252	46,391	1,648	6,957	–	66,248
Provided for the year	2,501	9,946	385	523	–	13,355
Disposals	–	(403)	–	(710)	–	(1,113)
At 31 December 2018	13,753	55,934	2,033	6,770	–	78,490
Provided for the year	**2,564**	**11,751**	**842**	**545**	**–**	**15,702**
Eliminated upon write-off	**–**	**(1,001)**	**–**	**–**	**–**	**(1,001)**
At 31 December 2019	**16,317**	**66,684**	**2,875**	**7,315**	**–**	**93,191**
CARRYING VALUE						
At 31 December 2018	49,238	47,212	9,774	2,793	1,055	110,072
At 31 December 2019	**46,674**	**45,431**	**12,893**	**2,248**	**749**	**107,995**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis based on their estimated useful lives, after taking into account the estimated residual value, as follows:

Buildings	20 – 30 years
Plant, machinery and equipment	3 – 10 years
Leasehold improvements	5 – 10 years
Motor vehicles	4 – 5 years

The Group's properties are located in the PRC.

At the end of the reporting period, the Group has the following items of property, plant and equipment with the following original cost that have been fully depreciated but still in use:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Buildings	**6,218**	6,218
Plant, machinery and equipment	**34,422**	33,675
Motor vehicles	**6,890**	6,890
	47,530	46,783

15. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased office premise RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	24,713	–	24,713
As at 31 December 2019			
Carrying amount	28,259	1,795	30,054
For the year ended 31 December 2019			
Depreciation charge	508	690	1,198
Additions to right-of-use assets	4,054	2,485	6,539

The above items of right-of-use assets are depreciated on a straight-line basis based over the shorter of their estimated useful lives and the lease terms as follows:

Leasehold land	shorter of estimated useful lives or lease term of 50 years
Leased office premise	shorter of estimated useful life or lease term of 3 years

The Group's right-of-use assets in respect of the leasehold land are in the PRC under medium term lease and are used by the Group where its production plant is built.

The Group regularly entered into short-term leases for rented premises. As at 31 December 2019, the Group has a short-term lease in respect of a rented service apartment which was entered into in January 2019, after the date of initial application of IFRS 16, and incurred expenses of RMB260,000 for the year.

During the year, the Group had total cash outflows for leases amounting to RMB5,037,000.

16. PREPAID LEASE PAYMENTS

	At 31 December 2018 RMB'000
Non-current portion	24,194
Current portion	519
	24,713

The prepaid lease payments of the Group are located in the PRC.

17. INTEREST IN AN ASSOCIATE

Details of the Group's interest in an associate are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of investment in an associate, unlisted	**73,500**	73,500
Share of post-acquisition profit of an associate, net of dividends received	**28,114**	43,367
	101,614	116,867

As at 31 December 2018 and 2019, the details of the Group's interest in an associate are as follows:

Name of entity	Form of business structure	Place of establishment	Place of operation	Proportion of equity interests held by the Group at 31 December		Proportion of voting rights at 31 December		Principal activities
				2019	2018	**2019**	2018	
Jiangsu Nanfang Optic Electric Technology Company Limited (江蘇南方光纖科技有限公司)	Incorporated	The PRC	The PRC	**49%**	49%	**49%**	49%	Manufacturing and sales of optical fibre

The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**134,591**	185,971
Non-current assets	**114,622**	121,174
Current liabilities	**(37,481)**	(68,640)
Non-current liabilities	**(4,355)**	–
Net assets	**207,377**	238,505
Proportion of the Group's ownership interest therein	**49%**	49%
Group's share of net assets of an associate	**101,614**	116,867

17. INTEREST IN AN ASSOCIATE (CONTINUED)

	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	**192,287**	409,117
(Loss) profit and total comprehensive (expense) income for the year	**(31,128)**	66,690
Group's share of (loss) profit of an associate*	**(15,253)**	32,678
Dividends receivable from an associate	**–**	–

* Included in the Group's share of (loss) profit of an associate shown on the Group's consolidated statement of profit or loss and other comprehensive income is a release of unrealised profit of RMB4,239,000 (2018: unrealised profit of RMB2,766,000) for the year ended 31 December 2019 as a result of optical fibre sold by the associate to the Group remained unsold as at 31 December 2019.

18. INTEREST IN A JOINT VENTURE

	2019 RMB'000	2018 RMB'000
Cost of unlisted investment in a joint venture	**76,500**	76,500
Share of post-acquisition profit of a joint venture	**5,876**	1,322
	82,376	77,822

Name of joint venture	Place of establishment	Place of operation	Fully paid registered capital	Attributable equity interest of the Group as at 31 December 2019	2018	Principal activities
Jiangsu Yingke Optical Material Technology Company Limited (江蘇盈科光導科技有限公司)	The PRC	The PRC	RMB150,000,000	**51%**	51%	Manufacturing and sales of optical fibre preforms

18. INTEREST IN A JOINT VENTURE (CONTINUED)

The joint venture was set up in 2017 with initial fully paid registered capital of RMB1,000,000 which was increased to RMB150,000,000 during the year ended 31 December 2018. Its financial and operating decisions require unanimous consents of both the Group and the joint venture partner.

The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**86,461**	54,094
Non-current assets	**79,731**	100,521
Current liabilities	**(4,670)**	(2,023)
Net assets	**161,522**	152,592
Proportion of the Group's ownership interest therein	**51%**	51%
Group's share of net assets of a joint venture	**82,376**	77,822
The above assets and liabilities include the following:		
Cash and cash equivalents	**–**	–
Current liabilities (excluding trade and other payables and provision)	**(3,010)**	(762)

18. INTEREST IN A JOINT VENTURE (CONTINUED)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	**124,696**	252,058
Profit and total comprehensive income for the year	**8,930**	2,592
Group's share of profit of a joint venture	**4,554**	1,322
The above profit and total comprehensive income for the year includes the following:		
Depreciation and amortisation	**(19,623)**	(17,647)
Interest income	**219**	39
Interest expense	**(50)**	–
Income tax expense	**(2,778)**	(864)

19. INVENTORIES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**19,027**	22,101
Work in progress	**6,758**	6,973
Finished goods	**19,239**	21,203
	45,024	50,277

20. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**391,067**	537,513
Less: Allowance of credit losses	**(5,857)**	(6,055)
	385,210	531,458
Bills receivable *(Note)*	**19,966**	7,861
	405,176	539,319

As at 1 January 2018, the Group had net carrying amounts of trade receivables and bills receivable of RMB464,043,000 (net of allowance of credit losses of RMB4,786,000) and RMB2,920,000, respectively.

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

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

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Less than 6 months	**334,140**	456,249
More than 6 months, but less than 1 year	**44,800**	67,194
More than 1 year	**6,270**	8,015
	385,210	531,458

As at 31 December 2019, included in the Group's trade receivables balances are debtors with aggregate gross carrying amount of RMB11,925,000 (2018: RMB13,568,000) which are past due as at the reporting date and lifetime ECL of credit-impaired balances of RMB5,652,000 (2018: RMB5,550,000) was recognised. The remaining past due trade receivables with gross carrying amount of RMB6,273,000 (2018: RMB8,018,000) has been past due 90 days or more and is not considered as in default because these customers (mainly the Major PRC Telecommunications Network Operators) are in the process of internal settlement procedures that the management of the Group has acknowledged and approved the extended credit period.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

For the year ended 31 December 2019, 98.0% (2018: 81.9%) of the Group's sales of optical fibre cables, optical distribution network devices and other materials were made to 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% – 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 twelve 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 customers with good repayment history. The Group does not obtain collateral from customers.

Details of impairment assessment of trade and bills receivables as at 31 December 2018 and 2019 are set out in note 34.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments for inventories	**3,440**	15,426
Prepayments for acquiring property, plant and equipment	**1,256**	8,164
Prepaid expenses	**1,834**	–
Value-added-tax ("**VAT**") recoverable	**–**	2,884
Other receivables:		
– Loan to Pacific Smart Development Limited	**19,249**	54,906
– Others	**6,778**	9,653
Less: Allowance for credit losses on other receivables	**(409)**	–
	25,618	64,559
	32,148	91,033
Less: Portion classified as non-current	**(2,173)**	(8,164)
Current portion	**29,975**	82,869

A loan (US$8,000,000) to Pacific Smart Development Limited, an independent third party, was advanced in December 2018, bore interest at 6.0% per annum and was repayable in December 2019. The loan is secured by first floating charge over the undertaking, property and/or assets of Pacific Smart Development Limited and the entire issued ordinary shares of Pacific Smart Development Limited held by its sole shareholder, an experienced financial advisor and investor, who also provides personal guarantee to the Group for the repayment of the loan. Taking into account the current collateral value, the personal guarantee from the sole shareholder of Pacific Smart Development Limited and the prospects of the assets held by Pacific Smart Development Limited, the Directors considered that there have been no significant increase in credit risk of the loan since initial recognition and the 12m ECL impairment for the loan, if any, is insignificant. In December 2019, Pacific Smart Development Limited repaid RMB40,000,000 to the Group for settlement of the loan and interest accrued amounting to RMB36,630,000 and RMB3,370,000, respectively. In January 2020, the remainder of RMB19,249,000, together with interest accrued, was fully settled.

Details of impairment assessment of other receivables as at 31 December 2018 and 31 December 2019 are set out in note 34.

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

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 4.2% per annum (2018: from 0.3% to 1.4% per annum) at the end of the reporting period.

As at 31 December 2018 and 2019, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable (see note 25) and certain performance bonds.

As at 31 December 2019, included in the Group's bank deposits with original maturity more than three months are bank deposits amounting to RMB44,680,000 (2018: Nil), which are due for withdrawal within twelve months at the end of the reporting period and bank deposits amounting to RMB98,428,000 (2018: RMB3,035,000) which are due for withdrawal in January 2022 (2018: before December 2020).

Details of impairment assessment of bank deposits with original maturity of more than three months, restricted bank deposits and balances, bank deposits and bank balances as at 31 December 2018 and 31 December 2019 are set out in note 34.

23. BANK BORROWINGS

As at 31 December 2019, the Group's bank borrowings are unsecured, bear fixed interest rate at approximately 4.4% per annum (2018: fixed interest rate of approximately 4.4% per annum) and are repayable within one year from the end of the reporting period. The repayments of these bank borrowings are guaranteed by group companies at nil consideration.

24. 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 ageing analysis of trade payables, presented based on the invoice date:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Less than 6 months	**145,295**	183,374
More than 6 months, but less than 1 year	**3,572**	2,165
More than 1 year	**3,293**	1,049
	152,160	186,588

Included in trade payables are amounts due to an associate of RMB67,109,000 (2018: RMB104,487,000) as at 31 December 2019. The amount due to the associate is unsecured, interest-free and payable according to the relevant purchase agreements.

25. 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 deposits and balances.

26. OTHER PAYABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Advance from the ultimate holding company *(Note (a))*	**5,405**	8,897
Other payables *(Note (b))*	**16,311**	15,789
Staff costs payables	**15,033**	14,334
Other taxes payable	**32,226**	50,727
	68,975	89,747

Notes:

(a) The amount advanced from the Company's ultimate holding company is unsecured, interest-free and repayable on demand.

(b) Other payables mainly included transportation costs payables and payables for acquiring property, plant and equipment.

27. CONTRACT LIABILITIES

As at 1 January 2018, 31 December 2018 and 31 December 2019, the Group's contract liabilities were RMB815,000, RMB19,000 and RMB388,000, respectively. The Group's contract liabilities mainly represent the Group's obligation to transfer optical fibre cables to customers subsequently for which the Group has received advance payments from the customers. The contract liabilities as at 1 January 2018 were recognised as revenue in 2018. The Group's contract liabilities as at 31 December 2018 have been recognised as revenue during the year ended 31 December 2019 and the Group's contract liabilities as at 31 December 2019 are expected to be recognised as revenue in 2020.

28. LEASE LIABILITIES

	As at 31 December 2019 RMB'000
Lease liabilities payable	
Within one year	824
Within a period of more than one year but not more than two years	849
Within a period of more than two years but not more than five years	144
	1,817
Less: Amount due for settlement with 12 months shown under current liabilities	(824)
Amount due for settlement after 12 months shown under non-current liabilities	993

The above lease liabilities arose from leasing an office premise for three years starting in March 2019 and are discounted at 3% per annum.

29. DEFFERED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December	
	2019 **RMB'000**	2018 RMB'000
Deferred tax assets	**4,265**	5,336
Deferred tax liabilities	**(9,125)**	(7,587)
	(4,860)	(2,251)

29. DEFFERED TAXATION (CONTINUED)

The movements in deferred tax assets (liabilities) during the year are as follows:

	Undistributable profits of subsidiaries, an associate and a joint venture	Allowance for impairment of trade receivables	Deferred income	Accruals for staff costs	Unrealised losses eliminated in inventories	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	(3,500)	718	2,741	2,497	–	4,723	7,179
Utilised	3,500	–	–	–	–	–	3,500
(Charge) credit to profit or loss	(7,587)	190	(58)	(752)	–	(4,723)	(12,930)
At 31 December 2018	(7,587)	908	2,683	1,745	–	–	(2,251)
Change in EIT rate applicable to a subsidiary and charge to profit or loss	–	–	(1,073)	–	–	–	(1,073)
(Charge) credit to profit or loss	(1,362)	32	728	(759)	(175)	–	(1,536)
At 31 December 2019	(8,949)	940	2,338	986	(175)	–	(4,860)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries (including share of retained profits of an associate and a joint venture) amounting to RMB195,373,000 (2018: RMB195,373,000) as at 31 December 2019 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. DEFERRED INCOME

The deferred income mainly represents subsidies for the Group's certain prepaid lease payments/right-of-use assets and equipment.

31. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2018 and 2019	8,000,000	8,000
Issued and fully paid:		
At 31 December 2018 and 2019	1,120,000	1,120

Presented in the consolidated financial statements as

	RMB'000
At 31 December 2018 and 2019	997

32. 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 of the Company may, at its discretion, grant options to subscribe for ordinary 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 ordinary share capital of the Company in issue from time to time. The total number of ordinary shares which may be allotted and issued upon exercise of all options to be granted under Share Options Scheme and any other share option of the Group must not in aggregate exceed 10% of the ordinary shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

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 of the Company, 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.

32. 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$1.00 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.

No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2018 and 2019.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of debts (representing bank borrowings and advance from the ultimate holding company), net of bank deposits, bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**959,799**	1,083,829
Financial liabilities		
Amortised cost	**(417,895)**	(525,387)

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The major financial instruments include trade, bills and other receivables, bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits, bank balances and cash, trade, bills and other payables, advance from the ultimate holding company and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group is exposed to financial risks; principally market risk (currency risk and interest rate risk), credit risk and liquidity risk. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

Market risk

Currency risk

While the Group's operations were principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, loan to Pacific Smart Development Limited and advance from the ultimate holding company denominated in foreign currencies. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate, and the Directors manage its foreign currency risk by closely monitoring the movement of the foreign currency rate.

At the end of the reporting period, the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Assets		
Bank deposits and balances		
– HK$	**2,868**	8,744
– US$	**377**	388
Loan to Pacific Smart Development Limited		
– US$	**19,249**	54,906
Liabilities		
Advance from the ultimate holding company		
– HK$	**(5,405)**	(8,897)

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

The following table details the Group's sensitivity to a 5% increase in the exchange rate of RMB against HK$ and US$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in RMB against HK$ and US$.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
RMB strengthen 5% against HK$		
Increase in post-tax profit	**127**	8
RMB strengthen 5% against US$		
Decrease in post-tax profit	**(981)**	(2,765)

For a 5% weakening of the RMB against HK$ and US$, there would be an equal and opposite impact on the post-tax profit for the year.

Interest rate risk

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

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing restricted bank balances and bank balances at the end of the reporting period and assumed that these amounts outstanding at the end of the reporting period were outstanding for the whole relevant year.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

If interest rates on restricted bank balances and bank balances of the Group had been 10 basis points higher, and all other variables were held constant, the potential effect on post-tax profit is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Increase in post-tax profit	**314**	394

There would be an equal and opposite impact on the above post-tax profit, should the aforesaid interest rate be 10 basis points lower in the above sensitivity analysis.

The above sensitivity analysis represents management's assessment of the reasonably possible change in interest rate.

Credit risk and impairment assessment

As at 31 December 2019 and 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade and bills receivables arising from contracts with customers

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.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of lifetime ECL of trade and bills receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

An impairment loss under ECL model, net of reversal, of RMB620,000 (2018: RMB1,269,000) is recognised for trade receivables for the year. Details of the quantitative disclosure are set out below in this note.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Other receivables

The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of ECL of 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. The 12m ECL for other receivables of RMB409,000 (2018: Nil) was made as at 31 December 2019.

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank 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's internal credit risk grading assessment comprises following categories:

Internal credit rating	Description	Trade and bills receivables	Other financial assets
Level 1	The counterparty has great ability of repayment, low risk of default and has no history of impairment loss.	Lifetime ECL – not credit-impaired	12m ECL
Level 2	The counterparty has good ability of repayment, but may infrequently settle after due date.	Lifetime ECL – not credit-impaired	12m ECL
Level 3	The counterparty has enough ability of repayment, but may settle in full after due date.	Lifetime ECL – not credit-impaired	12m ECL
Level 4	There is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Level 5	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	Average loss rate (%)	2019 Gross carrying amount RMB'000		2018 Gross carrying amount RMB'000	
Financial assets at amortised cost								
Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances	22	Level 1	12m ECL	–		529,005		479,951
Other receivables	21	Level 1	12m ECL	0.04	19,249		58,669	
		Level 2	12m ECL	3,75	4,427		4,972	
		Level 3	12m ECL	10.00	2,351		918	
						26,027		64,559
Trade and bills receivables – contracts with customers	20	Level 1	Lifetime ECL (not credit- impaired)	0.04	404,340		532,026	
		Level 2	Lifetime ECL (not credit- impaired)	3.75	1,041		7,798	
		Level 5	Lifetime ECL (credit- impaired)	100.00	5,652		5,550	
						411,033		545,374

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Allowance for impairment

During the current year, the movements in allowance for impairment that has been recognised for trade and other receivables were as follows:

	Trade receivables		Other receivables		
	Credit-impaired (Lifetime ECL)	Not credit-impaired (Lifetime ECL)	Credit-Impaired (Lifetime ECL)	Not credit-Impaired (12m ECL)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	4,786	–	–	–	4,786
Credit losses recognised, net of reversal	764	505	–	–	1,269
At 31 December 2018	5,550	505	–	–	6,055
Credit losses recognised, net of reversal	920	(300)	–	409	1,029
Write-off	(818)	–	–	–	(818)
At 31 December 2019	5,652	205	–	409	6,266

Concentration on credit risk

The Group has concentration of credit risk because 97.9% (2018: 86.0%) of trade receivables as at 31 December 2019 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

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

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. To the extent that interest flows are at variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand or less than six months	Seven months to one year	One to Five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019						
Bank borrowings						
– at fixed rate	4.4	50,832	62,373	–	113,205	110,000
Trade, bills and other payables		307,895	–	–	307,895	307,895
		358,727	62,373	–	421,100	417,895
Lease liabilities	3.0	433	434	1,012	1,879	1,817
At 31 December 2018						
Bank borrowings						
– at fixed rate	4.4	101,751	103,566	–	205,317	200,000
Trade, bills and other payables		325,387	–	–	325,387	325,387
		427,138	103,566	–	530,704	525,387

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

The fair value of the Group's financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate their fair values.

35. CAPITAL COMMITMENTS

	At 31 December	
	2019 RMB'000	2018 RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	2,654	2,902

36. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Sales of other materials to an associate	240	117
Purchases of optical fibre and other materials from an associate	167,963	391,871
Purchases of raw materials from the holding company and fellow subsidiaries of the Group's joint venture partner	2,374	19,716

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 year were as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Short-term benefits	4,672	4,831
Post-employment benefits	521	514
	5,193	5,345

In addition to the above, the Group's joint venture had the following transactions with Jiangsu Hengtong Light Guide New Materials Company Limited (江蘇亨通光導新材料有限公司) ("**Hengtong Light Guide**", the Group's joint venture partner) and the Group's associate:

(a) The joint venture purchased certain machineries for production of optical fibre performs with an aggregate amount of nil (2018: RMB115,386,000) from Hengtong Light Guide during the year;

(b) The joint venture purchased certain optical fibre preforms and raw materials with an aggregate amount of RMB89,374,000 (2018: RMB233,580,000) from Hengtong Light Guide during the year;

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) The joint venture leased certain factory premises from Hengtong Light Guide with an aggregate rental of RMB1,558,000 (2018: RMB1,554,000) during the year;

(d) The joint venture sold optical fibre preforms with an aggregate amount of RMB124,724,000 (2018: RMB252,058,000) to the Group's associate during the year; and

(e) The joint venture provided service with an aggregate amount of RMB7,213,000 (2018: nil) to Hengtong Light Guide during the year.

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

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable RMB'000	**Advance from the ultimate holding company** RMB'000	**Lease liabilities**	**Bank borrowings** RMB'000	**Total** RMB'000
At 1 January 2018	–	11,480	–	50,000	61,480
Cash changes:					
Proceeding from bank borrowings	–	–	–	250,000	250,000
Repayment of bank borrowings	–	(2,583)	–	(100,000)	(102,583)
Interest on bank borrowings paid	–	–	–	(6,043)	(6,043)
Dividend paid	(72,416)	–	–	–	(72,416)
Non-cash changes:					
Interest on bank borrowings recognised	–	–	–	6,043	6,043
Dividend declared	72,416	–	–	–	72,416
At 31 December 2018	–	8,897	–	200,000	208,897
Cash changes:					
Proceeds from bank borrowings	–	–	–	250,000	250,000
Repayments of bank borrowings	–	(3,574)	–	(340,000)	(343,574)
Repayment of lease liabilities	–	–	(668)	–	(668)
Interest on lease liabilities and bank borrowings paid	–	–	(55)	(10,366)	(10,421)
Dividend paid	(70,000)	–	–	–	(70,000)
Non-cash changes:					
New lease entered	–	–	2,485	–	2,485
Interest on bank borrowings recognised	–	–	–	10,366	10,366
Dividend declared	70,000	–	–	–	70,000
Exchange losses, net	–	82	–	–	82
Interest on lease liabilities recognised	–	–	55	–	55
At 31 December 2019	–	5,405	1,817	110,000	117,222

38. GENERAL INFORMATION OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 and 2019 are set out as follows:

Name of subsidiary	Place of incorporation/ establishment and place of operation	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Company at 31 December		Principal activities
			2019	2018	
Directly held:					
Century Planet	BVI/Hong Kong	Ordinary share capital of US$1	**100%**	100%	Investment holding
Indirectly held:					
Nanfang Hong Kong	Hong Kong	Ordinary share capital of HK$10,000	**100%**	100%	Investment holding
MacroSmart#	The PRC	Paid-up registered capital of US$38,840,000	**100%**	100%	Investment holding
Nanfang Communication*	The PRC	Paid-up registered capital of RMB379,000,000	**100%**	100%	Manufacturing and sales of optical fibre cables and optical distribution network devices
Yingke*	The PRC	Paid-up registered capital of RMB50,000,000	**100%**	100%	Manufacturing and sales of optical fibre cables and optical distribution network devices

This company is a wholly foreign owned enterprise established in the PRC.

* These companies are wholly domestic owned enterprise established in the PRC.

None of the subsidiaries has issued any debt securities at the end of the year.

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**185,556**	185,556
Right-of-use assets	**1,795**	–
	187,351	185,556
CURRENT ASSETS		
Other receivables	**430**	23
Due from a subsidiary	**78,624**	102,442
Bank balances and cash	**1,867**	945
	80,921	103,410
CURRENT LIABILITIES		
Other payables	**255**	260
Lease liabilities	**824**	–
	1,079	260
NET CURRENT ASSETS	**79,842**	103,150
TOTAL ASSETS LESS CURRENT LIABILITIES	**267,193**	288,706
CAPITAL AND RESERVES		
Share capital	**997**	997
Reserves	**265,203**	287,709
TOTAL EQUITY	**266,200**	288,706
NON-CURRENT LIABILITIES		
Lease liabilities	**993**	–
	267,193	288,706

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movements of the Company's reserves

	Share premium RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018	214,255	71,339	285,594
Profit and total comprehensive income for the year	–	74,531	74,531
Dividend paid *(Note 13)*	–	(72,416)	(72,416)
At 31 December 2018	214,255	73,454	287,709
Profit and total comprehensive income for the year	**–**	**47,494**	**47,494**
Dividend paid *(Note 13)*	**–**	**(70,000)**	**(70,000)**
At 31 December 2019	**214,255**	**50,948**	**265,203**

40. EVENT AFTER THE REPORTING PERIOD

Since the outbreak of the Coronavirus Disease 2019 ("**COVID-19**") epidemic in January 2020 in the PRC, the contagion of COVID-19 has spread worldwide. Different countries' authorities have taken national prevention and control measures against the disease. The pandemic caused by the COVID-19 has certain impacts on the business operation and overall economy in different regions and industries in the world. The Group has gradually resumed operations/production since March 2020 while the Directors consider that the impact of COVID-19 on the Group's operations and future prospects would depend on the duration of the epidemic, the implementation of regulatory policies and relevant protective measures that might affect the business environment that the Group is operating at. The Group will stay alert on the development and situation of the COVID-19, continues to assess its impacts on the financial position and operating results of the Group and take necessary actions to mitigate its business risk. Up to the date of this report, the aforesaid assessment is still in progress.