2020
INTERIM REPORT

南方通信
Nanfang Communication

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SMART LINKS START THE FUTURE

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

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC
1 Cencun Road, Luoyang Town
Wujin District, Changzhou City
Jiangsu Province, The People's Republic of China

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

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE
www.jsnfgroup.com

STOCK CODE
1617

Financial Highlights

For the six months ended 30 June 2020, (the "**reporting period**") the Group's operating results were as follows:

- Total revenue decreased by approximately 46.1% to approximately RMB200.8 million (six months ended 30 June 2019: approximately RMB372.8 million).

- Gross profit decreased by approximately 83.2% to approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million).

- Gross profit margin decreased by approximately 21.3% to approximately 9.6%.

- Loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), represented a decrease of approximately 110.5%.

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020.

Management Discussion and Analysis

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, Nanfang Communication Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") recorded revenue of approximately RMB200.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB372.8 million), representing a decrease of approximately 46.1% as compared to the same period in 2019.

During the six months ended 30 June 2020, the gross profit of the Group was approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million), representing a decrease of approximately 83.2% as compared to the same period in 2019.

During the six months ended 30 June 2020, the Group recorded a loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), representing a decrease of approximately 110.5% as compared to the corresponding period in 2019.

During the six months ended 30 June 2020, the basic loss per share was approximately RMB0.005 (six months ended 30 June 2019: basic earnings per share approximately RMB0.05).

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the six months ended 30 June 2020, revenue of the Group amounted to approximately RMB200.8 million, representing a decrease of approximately 46.1% from approximately RMB372.8 million for the six months ended 30 June 2019. Following the outbreak of the Novel Coronavirus 2019 ("**COVID-19**") pandemic, during the first half year of 2020, the Group and the upstream and downstream industry chains encountered suspension of operation for a relatively long period. The Company's production capacity and order volume were significantly affected. Despite a slight increase in the sales volume during the reporting period, the unit selling price of optical fibre cables declined remarkably. As a result, the Company's revenue for the six months ended 30 June 2020 was impaired.

Cost of sales

For the six months ended 30 June 2020, cost of sales of the Group was approximately RMB181.5 million (six months ended 30 June 2019: approximately RMB257.4 million), representing a decrease of approximately 29.5% as compared to the same period in 2019. The decrease in cost of sales during the reporting period was mainly due to: (i) the sluggish production operations of the Group as a result of COVID-19 pandemic; and (ii) the reduced cost of optical fibre, which is the raw material for manufacturing optical fibre cables.

Gross profit and gross profit margin

For the six months ended 30 June 2020, the Group's gross profit was approximately RMB19.4 million (six months ended 30 June 2019: approximately RMB115.4 million), representing a decrease of approximately 83.2% as compared to the same period in 2019. During the reporting period, the Group's gross profit margin was approximately 9.6% as compared to a gross profit margin of approximately 31.0% for the six months ended 30 June 2019. While the Group encountered a reduction in revenue due to industry-wide suspension of business operation due to COVID-19 pandemic and the reduced unit selling price of optical fibre cables, various fixed costs of sales were incurred normally. This led to an increase in the unit fixed cost of the optical fibre cables.

FINANCIAL REVIEW (CONTINUED)

Other income, gains, expenses and losses, net

A net revenue of approximately RMB6.7 million for the six months ended 30 June 2019 has been reduced to approximately RMB5.2 million for the same period in 2020.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses were approximately RMB7.5 million (six months ended 30 June 2019: approximately RMB8.3 million), representing a decrease of approximately 9.4% as compared to the same period in 2019. The decrease was in line with a decline in business scale and thus a decline in transportation costs.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses were approximately RMB16.7 million, comparable to that of approximately RMB17.2 million for the six months ended 30 June 2019.

Research costs

The Group's research costs were approximately RMB13.2 million for the six months ended 30 June 2020 (for the six months ended 30 June 2019: approximately RMB15.9 million), representing a decrease of approximately 17.1% as compared to the same period in 2019. The decrease was mainly due to a relatively long period of suspension encountered by the research and development staff of the Company as a result of the COVID-19 pandemic.

Finance costs

During the six months ended 30 June 2020, the Group's finance costs were approximately RMB2.3 million (six months ended 30 June 2019: approximately RMB4.6 million), representing a decrease of approximately 49.6% as compared to the same period in 2019. The decrease in finance costs was in line with the decrease in bank borrowings.

Share of profit (loss) of an associate

The Group recognised a share of profit of an associate of approximately RMB5.4 million for the six months ended 30 June 2020, as compared to a share of loss of an associate of approximately RMB10.3 million for the six months ended 30 June 2019. The change was mainly due to the continuous improvement in profitability.

Income tax credit (expense)

During the six months ended 30 June 2020, the Group recorded income tax credit of approximately RMB2.0 million, as compared to the income tax expense of approximately RMB13.8 million compared to the same period in 2019. The change was mainly due to the decrease in profit.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

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

As a result of the above, for the six months ended 30 June 2020, the Company has recorded loss and total comprehensive expense attributable to owners of approximately RMB5.5 million (six months ended 30 June 2019: profit and total comprehensive income of approximately RMB52.1 million), representing a decrease of approximately 110.5% as compared to the same period in 2019.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Cash position

As at 30 June 2020, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB365.8 million (as at 31 December 2019: approximately RMB529.0 million), representing a decrease of approximately 30.9% as compared to that as at 31 December 2019. As at 30 June 2020, the Group had restricted bank deposits and balances of approximately RMB69.7 million (as at 31 December 2019: approximately RMB67.2 million) that were pledged to banks for issuing bills payable and certain performance bonds.

Borrowings and charges on the Group's assets

As at 30 June 2020, the Group had bank loans of approximately RMB60.0 million (as at 31 December 2019: RMB110.0 million), which were unsecured. All bank loans will be repayable within one year.

Gearing ratio

As at 30 June 2020, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 64.0% (as at 31 December 2019: 64.3%).

Currency risk

While the Group's operations were principally in the PRC during the reporting period and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company 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.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (CONTINUED)

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, 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

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 96.5% (as at 31 December 2019: approximately 97.9%) of trade receivables as at 30 June 2020 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

Management Discussion and Analysis

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (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.

Capital commitments

As at 30 June 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.2 million (as at 31 December 2019: approximately RMB2.7 million).

Employees and remuneration policies

As at 30 June 2020, the Group had approximately 390 employees (as at 30 June 2019: approximately 430 employees). During the reporting period, the Group incurred staff costs of approximately RMB15.8 million. As required by applicable local laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees.

Remuneration packages are reviewed periodically with reference to the prevailing market employment practices and legislation. The Group has organised its staff to participate in training courses, seminars and expertise courses to enhance their professional knowledge and skills, and strengthen their understanding of market development and improve their management and business skills.

OUTLOOK

Subsequent to the outbreak of the COVID-19 pandemic in the first half year of 2020, it brought impacts and challenges towards the Company's operational development. The Company has proactively responded to and committed to alleviating the adverse impact of the pandemic. Production has been resumed smoothly and delivery protocol of customers was accomplished.

During the reporting period, the Group's revenue and net profit decreased significantly compared with the same period in 2019, primarily due to: (1) following the unexpected pandemic, the Group and the upstream and downstream industrial chain suffered a long period of suspension in the first half year of 2020, which significantly affected the Company's production capacity utilization and order volume. (2) as a result of the shift in the supply-demand imbalance of optical fibre and optical fibre cables from a shortage in the prior years to a surplus in 2019, the unit selling price of optical fibre and optical fibre cable products decreased by more than 40% in 2019. During the reporting period, the Group's unit selling prices of optical fibre cable products were maintained at the previous level, causing a decline in revenue and profits for the six months ended 30 June 2020.

OUTLOOK (CONTINUED)

Currently, the development of 5G is accelerating as the construction progress of base stations is faster than expected. According to the latest statistics of the Ministry of Industry and Information Technology, it is indicated that the total number of 5G base stations has exceeded 400,000 by the end of June 2020. Recently, telecommunication operators have successively upgraded their annual targets for 5G station construction, of which, China Mobile has revised its target for new 5G base stations construction in the current year from 250,000 to 300,000 stations. By the end of the year, it will provide commercial services in all cities at prefecture level and above, and will promote the commercial use of the SA core network in the current year. China Unicom also stated that their co-construction and sharing with China Telecom have been accelerating. Currently, China Unicom has already serviced 260,000 5G base stations and will reach 370,000 by the end of this year. Being the physical connection channel between base stations, optical fibre and optical fibre cables are on keen demands, and becoming the deployment key in the whole 5G network pre-construction. Although the pandemic in the first half of the year has affected the domestic market and network construction, it has created a strong new demand for information technology among all sectors of the society. The PRC government has actively pursued the construction of new infrastructure, further integrated information and telecommunications technology with the people's livelihood, and further enhanced economic and social digitalization.

The supply-demand pattern of optical fibre and optical fibre cables did not improve in 2019, and the market competition was still intense. During the central procurement of ordinary optical fibre cables products by China Mobile in July 2020, the average price of optical fibre cables has further dropped by about 30% and industry profit margins will remain under significant pressure in a short term.

As the current development situation of the industry is becoming more complex and volatile and the trend of industrial integration is becoming more remarkable, it institutes a higher demand on the Group's operational development. In order to cope with the challenges, the Group will focus on improving the production technology standards of optical fibre and optical fibre cable, enhancing production efficiency, adjusting business units and strengthening cost control capability. Meanwhile, we will further optimise the sales network, explore new customers in the new fields among the domestic market, explore overseas market expansion, and establish a stable overseas sales network. Focusing on the telecommunication industry especially 5G network product demand, the Group will diligently participate in the new hardware manufacturing industry which caters for the need of 5G network construction, in order to grasp the expansion potential of the telecommunication industry and enhance our competitiveness and market share.

Meanwhile, the continuing global spread of COVID-19 pandemic has affected the global economy and posed uncertainties. The Group will stay alert on the development and situation of COVID-19, continue to assess its impact on the Group and take necessary actions to mitigate the business risks.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

Management Discussion and Analysis

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING (CONTINUED)

As at 30 June 2020, approximately HK$182.1 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	Actual utilised as at 30 June 2020	Unutilised as at 30 June 2020	Expected timeline for full utilisation of the unutilised proceeds
	%	HK$'000,000	HK$'000,000	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	55.0	66.3	In respect of acquisition of land for the phase II of Jin Tan Factory: By 30 June 2021 In respect of construction of the office and production facilities and installation of production facilities and equipment: By 30 September 2022
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**	**182.1**	**66.3**	**–**

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

Please also refer to the announcement of the Company dated 11 August 2020 regarding the expected timeline for the utilisation of the unutilised proceeds.

Other Information

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

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

As at 30 June 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares or underlying shares held [(1)]	Approximate % of shareholding
Ms. Yu Rumin [(2)]	Founder of a discretionary trust	840,000,000 (L)	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) Ms. Yu Rumin is the founder of the family trust, through which UBS TC (Jersey) Limited held long position in 840,000,000 Shares through its controlled corporation in its capacity as trustee.

(3) 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 Development Limited under the SFO.

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

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Other Information

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

So far as is known to any Directors or chief executive of the Company, as at 30 June 2020, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Interests in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares or underlying shares held [(1)]	Approximate % of shareholding
Pacific Mind Development Limited	Beneficial owner	840,000,000 (L)	75
UBS TC (Jersey) Limited [(2)]	Trustee	840,000,000 (L)	75
UBS Nominee Limited [(2)]	Interested in controlled corporation	840,000,000 (L)	75
Ms. Zhu Qinying [(3)]	Interest of spouse	840,000,000 (L)	75
Mr. Yu Jianguang [(4)]	Interest of spouse	840,000,000 (L)	75
Citigroup Inc. [(5)]	Person having a security interest in shares	61,060,000 (L)	5.45
ICBC International Asset Management Limited	Investment manager	56,480,000 (L)	5.04

Notes:

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

(2) UBS TC (Jersey) Limited, as trustee of the family trust, which was established by Ms. Yu Rumin as settlor in favour of her family members, held 100% of the issued share capital of Pacific Mind Development Limited through its nominee, UBS Nominee Limited.

(3) Ms. Zhu Qinying is the spouse of Mr. Yu Jinlai and it therefore deemed under the SFO to be interested in the shares held by Mr. Yu Jinlai.

(4) Mr. Yu Jianguang is the spouse of Ms. Yu Ruping and it therefore deemed under the SFO to be interested in the shares held by Ms. Yu Ruping.

(5) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Citigroup Inc., as at 30 June 2020, Citigroup Inc. was deemed to be interested in 61,060,000 Shares (L). These shares were held by 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES (CONTINUED)

Interests in the shares and underlying shares of the Company (Continued)

Save as disclosed above, as at 30 June 2020, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

Under the Share Option Scheme, the board of Directors may, at its discretion, grant options to subscribe for 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 the Share Option 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.

Other Information

SHARE OPTION SCHEME (CONTINUED)

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 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.

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

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

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme for the period ended 30 June 2020 and there was no outstanding share option as at 1 January 2020 and 30 June 2020.

No share-base payment expenses was recognized for the period ended 30 June 2020 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.

Other Information

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a sufficient public float for the six months ended 30 June 2020 and up to the date of this report.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2020 and up to the date of this report. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rule and the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Chi Keung, Mr. Chan Kai Wing, and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee. In each Audit Committee meeting, the Audit Committee 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.

The Audit Committee has, together with the management of the Company, reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020.

CONTINGENT LIABILITIES AND LITIGATION

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts on the environment by its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report issued by the Company dated 24 July 2020.

Other Information

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivating workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report dated 24 July 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2020, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020 and up to the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2020 and up to the date of this report, the Group had no material acquisition or disposal of its subsidiaries and associated companies.

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group have occurred since the end of the six months ended 30 June 2020 and up to the date of this report.

PUBLICATION OF THE INTERIM REPORT

This interim report is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.com.hk) and the Company (www.jsnfgroup.com).

For and on behalf of the Board
Nanfang Communication Holdings Limited

Yu Jinlai
Chairman

Hong Kong, 31 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	*3, 4*	**200,823**	372,839
Cost of sales		**(181,470)**	(257,408)
Gross profit		**19,353**	115,431
Other income, gains, expenses and losses, net	*5*	**5,222**	6,714
Selling and distribution expenses		**(7,484)**	(8,263)
Administrative expenses		**(16,665)**	(17,188)
Research costs		**(13,195)**	(15,925)
Finance costs	*6*	**(2,330)**	(4,621)
Share of profit (loss) of an associate		**5,401**	(10,290)
Share of profit of a joint venture		**2,218**	50
(Loss) profit before tax	*8*	**(7,480)**	65,908
Income tax credit (expense)	*7*	**2,017**	(13,783)
(Loss) profit and total comprehensive (expense) income for the period		**(5,463)**	52,125
(Loss) earnings per share	*9*		
– Basic		**RMB(0.005)**	RMB0.05

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Notes	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**104,123**	107,995
Right-of-use assets		**29,287**	30,054
Interest in an associate		**107,091**	101,614
Interest in a joint venture		**84,594**	82,376
Prepayments for acquiring property, plant and equipment and prepaid expenses		**2,962**	2,173
Bank deposits with original maturity more than three months		**100,425**	98,428
Deferred tax assets		**7,238**	4,265
		435,720	426,905
CURRENT ASSETS			
Inventories		**42,710**	45,024
Trade and bills receivables	*12*	**491,648**	405,176
Prepayments, deposits and other receivables		**26,490**	29,975
Restricted bank deposits and balances	*14*	**69,668**	67,200
Bank deposits with original maturity more than three months		**–**	44,680
Bank deposits, bank balances and cash		**195,698**	318,697
		826,214	910,752
CURRENT LIABILITIES			
Trade payables	*15*	**159,571**	152,160
Bills payable	*16*	**121,408**	134,019
Other payables		**56,214**	68,975
Derivative financial instruments		**400**	–
Contract liabilities		**–**	388
Dividends payable	*10*	**39,200**	–
Lease liabilities		**836**	824
Bank borrowings	*17*	**60,000**	110,000
Tax liabilities		**28,413**	31,357
		466,042	497,723
NET CURRENT ASSETS		**360,172**	413,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**795,892**	839,934

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Notes	**At 30 June 2020 RMB'000 (Unaudited)**	At 31 December 2019 RMB'000 (Audited)
CAPITAL AND RESERVES			
Share capital	*18*	**997**	997
Reserves		**768,571**	813,234
TOTAL EQUITY		**769,568**	814,231
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,288**	9,125
Deferred income – government grants		**16,465**	15,585
Lease liabilities		**571**	993
		26,324	25,703
		795,892	839,934

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Share capital	Share premium	Other reserve *(Note b)*	Surplus reserve *(Note a)*	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2020 (Unaudited)						
At 1 January 2020 (Audited)	**997**	**214,255**	**113,295**	**66,782**	**418,902**	**814,231**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**(5,463)**	**(5,463)**
Dividend	**–**	**–**	**–**	**–**	**(39,200)**	**(39,200)**
At 30 June 2020 (Unaudited)	**997**	**214,255**	**113,295**	**66,782**	**374,239**	**769,568**
For the six months ended 30 June 2019 (Unaudited)						
At 1 January 2019 (Audited)	997	214,255	113,295	62,426	459,402	850,375
Profit and total comprehensive income for the period	–	–	–	–	52,125	52,125
Dividend	–	–	–	–	(69,997)	(69,997)
At 30 June 2019 (Unaudited)	997	214,255	113,295	62,426	441,530	832,503

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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(107,288)**	45,931
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and prepaid lease payments	**(6,117)**	(2,972)
Redemption of bank deposits with original maturity more than three months	**42,684**	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**36,567**	(2,972)
FINANCING ACTIVITIES		
Proceeds from borrowings	**20,000**	170,000
Repayments of borrowings	**(70,000)**	(100,000)
Payment of interest expense	**(2,330)**	(4,379)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(52,330)**	65,621
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(123,051)**	108,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**318,697**	403,298
Effect of exchange rate changes on the balance of cash held in foreign currencies	**52**	(34)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Represented by:		
Bank balances and cash	**195,698**	511,844

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

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

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

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

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

3. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables and optical distribution network devices to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and other companies according to the relevant sales agreements. Revenue is recognised when control of optical fibre cables and optical distribution network devices has been transferred, being when they have been 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% to 90% payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in 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.

4. SEGMENT INFORMATION

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

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

Geographical information

The Group's 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	**3,260**	4,679
Other interest income	**–**	1,650
Foreign exchange gains, net	**52**	113
Gain on sales of other materials	**1,544**	232
Impairment loss recognised in respect of trade receivables	**–**	(6)
Government grants recognised *(Note)*	**702**	3,086
Change in fair value of derivative financial instruments	**(400)**	(700)
Others	**64**	(2,340)
	5,222	6,714

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, research costs and other expenses incurred in prior years.

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**2,305**	4,597
Interest on lease liabilities	**25**	24
	2,330	4,621

7. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**(793)**	(12,692)
– Deferred tax	**2,810**	(1,091)
Total income tax credited (recognised) in profit or loss	**2,017**	(13,783)

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 period (six months ended 30 June 2019: (unaudited) Nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate applicable to Jiangsu 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 reporting period (six months ended 30 June 2019: (unaudited) 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 reporting period. Accordingly Yingke is also entitled to a reduced EIT rate of 15% for the reporting period (six months ended 30 June 2019: (unaudited) 25%).

8. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,828**	8,729
Lees: Depreciation capitalised in inventories	**(6,294)**	(7,128)
	1,534	1,601
Depreciation of right-of-use assets	**767**	656
Staff costs (including the Directors' remuneration):		
Salaries, wages and allowances	**14,614**	15,024
Retirement benefit scheme contributions	**1,182**	2,066
Total staff costs	**15,796**	17,090
Cost of inventories recognised as cost of sales	**181,470**	257,408

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share ((Loss) profit for the period attributable to owners of the Company)	**(5,463)**	52,125

	Six months ended 30 June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,120,000**	1,120,000

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

10. DIVIDEND

During the current interim period, a final dividend of HK$0.03828 (equivalent to RMB0.035) per ordinary share in respect of year ended 31 December 2019 (six months ended 30 June 2019: (unaudited) HK$0.07098 (equivalent to RMB0.0625), an aggregate amount of HK$42.9 million (equivalent to RMB39.2 million) (six months ended 30 June 2019: (unaudited) HK$79.6 million (equivalent to RMB70.0 million) was declared to the shareholders of the Company.

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: (unaudited) Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately RMB3.5 million (six months ended 30 June 2019: (unaudited) RMB6.6 million).

12. TRADE AND BILLS RECEIVABLES

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Trade receivables	**491,682**	391,067
Less: Allowance of credit losses	**(5,857)**	(5,857)
	485,825	385,210
Bills receivable *(Note)*	**5,823**	19,966
	491,648	405,176

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

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

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Less than 6 months	**434,317**	334,140
More than 6 months, but less than 1 year	**44,819**	44,800
More than 1 year	**6,689**	6,270
	485,825	385,210

According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% to 90% of payment is made, amongst others, upon completing delivery of goods by orders with invoices issued and, subject to the different circumstances, the Group usually receives such initial payment in 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respect of trade receivables	**–**	6

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

14. RESTRICTED BANK DEPOSITS AND BALANCES

As at 31 December 2019 and 30 June 2020, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable and certain performance bonds.

15. TRADE PAYABLES

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

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

	At 30 June 2020	At 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Less than 6 months	**152,783**	145,295
More than 6 months, but less than 1 year	**4,100**	3,572
More than 1 year	**2,688**	3,293
	159,571	152,160

16. BILLS PAYABLE

As at 31 December 2019 and 30 June 2020, 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.

17. BANK BORROWINGS

As at 31 December 2019 and 30 June 2020, the Group's bank borrowings are unsecured 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.

18. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary share of HK$0.001 each		
Authorised:		
At 31 December 2019 and 30 June 2020	8,000,000	8,000
Issued and fully paid:		
At 31 December 2019 and 30 June 2020	1,120,000	1,120

Presented in the condensed consolidated financial statements as

	RMB'000
At 31 December 2019 and 30 June 2020	997

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Fair value measurement

30 June 2020	Fair value at 30 June 2020 RMB'000	As at 30 June 2020 Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Financial liabilities				
Derivative financial instruments	**400**	**–**	**400**	**–**

As at 31 December 2019, the Company did not have any derivative financial instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. CAPITAL COMMITMENTS

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	**1,249**	2,654

21. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of other materials to an associate	**1,183**	64
Purchases of optical fibre and other materials from an associate	**90,791**	92,402

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	**2,349**	1,623
Post-employment benefits	**73**	141
	2,422	1,764