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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

For the six months ended 30 June 2021, the Group's operating results were as follows:

- Total revenue decreased by approximately 18.0% to approximately RMB164.6 million (six months ended 30 June 2020: approximately RMB200.8 million).

- Gross profit decreased by approximately 37.7% to approximately RMB12.1 million (six months ended 30 June 2020: approximately RMB19.4 million).

- Gross profit margin decreased by approximately 2.3% to approximately 7.3%.

- The recognition of one-off equity-settled share-based payment expenses of approximately RMB14.9 million (six months ended 30 June 2020: nil), which led to an increase in staff costs by approximately 85.7% to approximately RMB29.3 million (six months ended 30 June 2020: approximately RMB15.8 million).

- Loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB36.8 million (six months ended 30 June 2020: approximately RMB5.5 million), represented an increase of approximately 574.0%.

- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2021.

The board (the "**Board**") of directors (the "**Directors**") of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the "**Company**") is pleased to announce the following unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2021 (the "**Reporting Period**"), together with the comparative unaudited figures for the six months ended 30 June 2020. The unaudited condensed consolidated interim results have not been audited and reviewed by the Company's auditors, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

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

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

Notes:

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

Application of amendments to IFRSs

In the 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 2021 for the preparation of the Group's condensed consolidated financial statements:

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

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

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

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

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables and optical distribution network devices to the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and other companies according to the relevant sales agreements. Revenue is recognised when control of optical fibre cables and optical distribution network devices has been transferred, being when they have been delivered to the customers' specific locations based on the quantity of optical fibre cables and optical distribution network devices received by the customers. A receivable is recognised by the Group as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. No provision for returns of optical fibre cables and optical distribution network devices is set out in the relevant sales agreements, unless they could be replaced if quality problems are found. The customers have neither rights of return nor rights to defer or avoid payment for the goods once the goods are received by the customers. The Group usually issues invoices in six months after completion of delivery of goods. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to other customers with good repayment history. The Group does not obtain collateral from customers.

4. SEGMENT INFORMATION

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

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

Geographical information

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

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

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

6. FINANCE COSTS

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

7. INCOME TAX CREDIT

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

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

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

8. LOSS BEFORE TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,430**	7,828
Less: Depreciation capitalised in inventories	**(6,455)**	(6,294)
	975	1,534
Depreciation of right-of-use assets	**414**	767
Staff costs (including the Directors' remuneration):		
– Salaries, wages and allowances	**12,411**	14,614
– Retirement benefit scheme contributions	**1,989**	1,182
– Equity-settled share-based payments expenses *(Note 17)*	**14,934**	–
Total staff costs	**29,334**	15,796
Cost of inventories recognised as cost of sales	**152,534**	181,470

9. LOSS PER SHARE

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

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

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

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

10. DIVIDEND

During the current interim period, no final dividend in respect of year ended 31 December 2020 (six months ended 30 June 2020: (unaudited) HK$0.03828 (equivalent to RMB0.035) per ordinary share) was declared to the shareholders of the Company.

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

11. TRADE AND BILLS RECEIVABLES

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

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

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

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

According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to customers with good repayment history. The Group does not obtain collateral from customers.

12. RESTRICTED BANK DEPOSITS AND BALANCES

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

13. TRADE PAYABLES

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

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

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

14. BILLS PAYABLE

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

15. BANK BORROWINGS

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

16. SHARE CAPITAL

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

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

	Number of issued shares	**Issued share capital**	**Issued share capital**
	'000	*HK$'000*	*RMB$'000*
As at 1 January 2020 (audited), 31 December 2020 (audited) and 1 January 2021 (audited)	1,120,000	1,120	997
Shares issued upon the exercise of share options *(Note 17)*	112,000	112	93
As at 30 June 2021 (unaudited)	1,232,000	1,232	1,090

17. SHARE-BASED PAYMENT

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

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

All the share options granted under the Scheme during the Reporting Period were granted on 27 May 2021, which were exercisable from 28 May 2021 to 27 May 2031 by the relevant grantees (all being employees of the Group). All such options were exercised and the closing price on the date of exercising such options was HK$0.330 (six months ended 30 June 2020: not applicable). The fair value of each of such options was HK$0.162 (six months ended 30 June 2020: not applicable), which was determined based on the following information:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB164.6 million for the six months ended 30 June 2021 (six months ended 30 June 2020: approximately RMB200.8 million), representing a decrease of approximately 18.0% as compared to the same period in 2020.

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

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

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

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

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the six months ended 30 June 2021, revenue of the Group amounted to approximately RMB164.6 million, representing a decrease of approximately 18.0% from approximately RMB200.8 million for the six months ended 30 June 2020. Due to an overall decrease in tender prices for optical fibre cables in the industry, the awarded tender prices have plummeted, thereby leading to the decrease in the Group’s revenue.

Cost of sales

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

Gross profit and gross profit margin

For the six months ended 30 June 2021, the Group's gross profit was approximately RMB12.1 million (six months ended 30 June 2020: approximately RMB19.4 million), representing a decrease of approximately 37.7% as compared to the same period in 2020. During the Reporting Period, the Group's gross profit margin was approximately 7.3% as compared to a gross profit margin of approximately 9.6% for the six months ended 30 June 2020. As there was an overall decrease in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have plummeted, and the magnitude of such price drop was greater than the reduction in the costs of raw materials. Therefore, it resulted in a drop in the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

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

Selling and distribution expenses

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

Administrative expenses

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

Research costs

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

Finance costs

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

Share of loss/profit of an associate

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

Income tax credit

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

Loss and total comprehensive expense attributable to owners of the Company

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

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

Cash and loan position

As at 30 June 2021, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB476.2 million (31 December 2020: approximately RMB377.5 million), representing an increase of approximately 26.1% as compared to that as at 31 December 2020. As at 30 June 2021, the Group had interest-bearing bank borrowings amounted to approximately RMB252.9 million (31 December 2020: approximately RMB172.3 million) and loan from a joint venture of RMB28.0 million (31 December 2020: approximately RMB28.0 million).

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

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

Charges on the Group's assets

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

Gearing ratio

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

Currency risk

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

Interest rate risk

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

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss ("**ECL**") of trade, bills and other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information.

For bank deposits and balances, the management of the Group assessed that the Group's bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to either international or PRC credit-rating agencies, and ECL is insignificant.

The Group has concentration of credit risk because approximately 92.7% (as at 31 December 2020: approximately 93.9%) of trade receivables as at 30 June 2021 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

Liquidity risk

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

Capital commitments

As at 30 June 2021, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.3 million (as at 31 December 2020: approximately RMB1.1 million).

Employees and remuneration policies

As at 30 June 2021, the Group had approximately 320 employees (as at 30 June 2020: approximately 390). During the Reporting Period, the Group incurred staff costs of approximately RMB29.3 million (30 June 2020: approximately RMB15.8 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees.

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

OUTLOOK

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

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

1. Affected by the further decline of approximately 30% in the average unit tender prices for optical fibre cables in the industry as a result of the centralized procurement of common optical fibre cable products by the Major PRC Telecommunications Network Operators in the second half of 2020, the awarded tender prices, which have been generally applicable since the fourth quarter of 2020, significantly decreased, thereby leading to a decline in the Group's operating revenue. Therefore, it would take some time to complete the optimization and adjustment of production capacity in the industry;

2. Since the second half of 2020, especially since this year, the cost of raw materials other than optical fibres (such as non-ferrous metals, certain chemical raw materials and other bulk commodities) has continued to increase significantly, and at the same time, the Group had relatively low flexibility in the production cost of its products, coupled with the rapid decline in unit prices, thus exerting greater pressure on the profit level. As a result, the Group recorded a relatively greater loss;

3. The Company recorded one-off equity-settled share-based payment expenses of RMB14.9 million for the six months ended 30 June 2021 as a result of granting share options to eligible participants under the share option scheme on 27 May 2021. The Company did not incur such expenses in the corresponding period last year.

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

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

The Group will further develop diversified businesses that are centered on the telecommunication industry. Given the significance of high-speed optical transceivers in the 5G construction, industrial internet and big data centres as well as the promising market prospects, the Company will further accelerate its development in the optical transceivers field. Facing the challenges, the Group will actively participate in the optical fibre cable industry and the new hardware manufacturing segment of the telecommunication industry which cater for the needs of 5G network construction in 2021.

INTERIM DIVIDEND

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, the Company has maintained a sufficient public float for the six months ended 30 June 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 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 for the six months ended 30 June 2021 and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the six months ended 30 June 2021 and up to the date of this announcement.

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.

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 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2021 and up to the date of this announcement, 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 has occurred since the end of the six months ended 30 June 2021 and up to the date of this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com). The interim report of the Company for the six months ended 30 June 2021 will be despatched to the Company's shareholders on or before 29 September 2021 and will be available on the websites of each of the Stock Exchange and the Company.

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

Hong Kong, 30 August 2021

As at the date of this announcement, the executive Directors are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive Director is Mr. Yu Jinlai (chairman); and the independent non-executive Directors are Mr. Wu Wing Kuen, Mr. Lam Chi Keung and Mr. Chan Kai Wing.