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VALUE CREATING ACTIVITIES

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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
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Kowloon, Hong Kong

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

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

COMPLIANCE ADVISER
Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

PRINCIPAL BANKERS
Wing Lung Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Conyers Trust Company (Cayman) Limited (formerly known as Codan 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 22, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE
www.jsnfgroup.com

STOCK CODE
1617

Company Profile

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

The Group is highly regarded in the optical fibre cable market in the PRC. The Group was awarded ISO 9001:2008 and ISO 14001:2004 certificates in relation to manufacturing of optical fibre cable products and was recognised by the Science and Technology Department of Jiangsu Province in the PRC as a high and new technology enterprise (高新技術企業) since 2010. Moreover, the Group's research and development department was recognised as one of the provincial recognised enterprise technical centres (省認定企業技術中心) credited to the Group's ability of product research and development. The Group also participated in the drafting of the national and telecommunications industry standards initiated by China Communications Standards Association (中國通信標準化協會) for publication by the government authorities for optical fibre cables in the PRC. The Group believes that, by leveraging the Group's strengths on product quality and research ability, the Group has successfully enhanced the Group's product recognition in the market.

Supported by the Group's two production sites, namely, Wu Jin Factory and Jin Tan Factory, both of which are located in Changzhou City, Jiangsu Province, the PRC, the Group owns a total site area of approximately 76,900 square metres. The Group's aggregate annual production capacity is expected to reach 15 million fkm upon the completion of expansion of Jin Tan factory by the first quarter of 2019, which would further benefit the Group from the economies of scale.

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

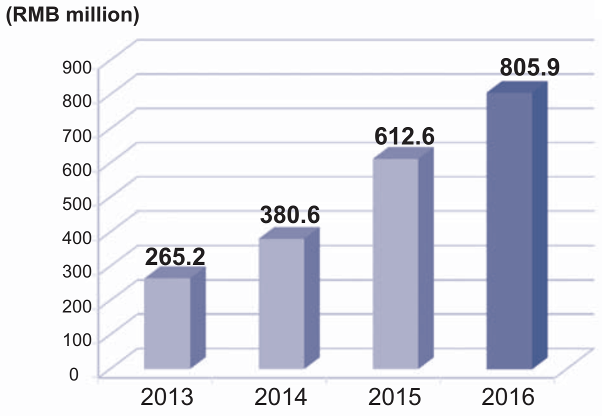
Financial Highlights

For the year ended 31 December 2016, the Group's operating results were as follows:

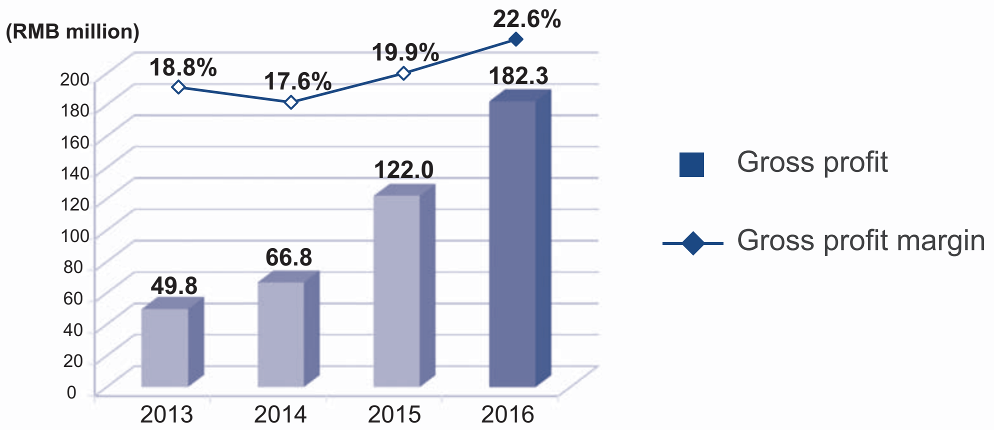
- Total revenue increased by approximately 31.5% to approximately RMB805.9 million
- Gross profit increased by approximately 49.4% to approximately RMB182.3 million
- Gross profit margin increased by approximately 2.7% to approximately 22.6%
- Profit and total comprehensive income for the year attributable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

Financial Highlights

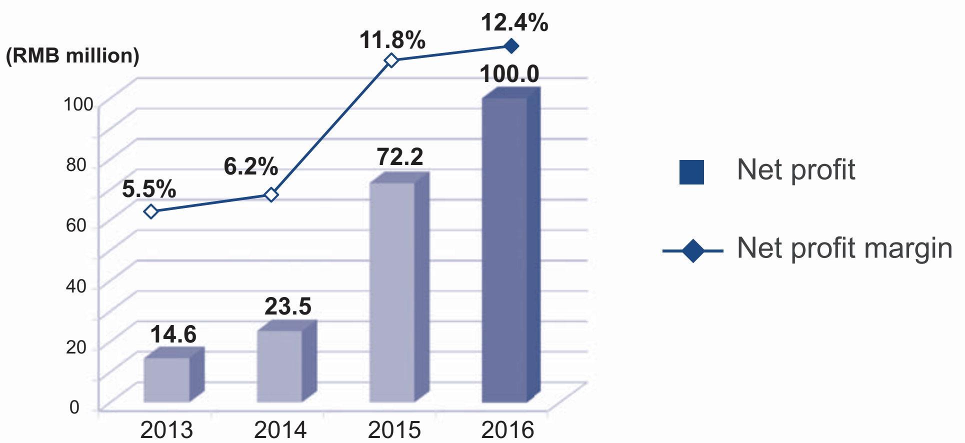
Revenue



Gross Profit and Gross Profit Margin



Profit Attributable to Owners of the Company and Net Profit Margin



Four-Year Financial Summary

RESULTS

	For the year ended 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**805,921**	612,637	380,612	265,163
Profit before tax	**114,586**	81,692	26,853	16,929
Income tax expense	**(14,553)**	(9,538)	(3,364)	(2,351)
Profit and total comprehensive income for the year	**100,033**	72,154	23,489	14,578
Profit and total comprehensive income for the year attributable to:				
Owners of the Company	**100,033**	72,154	23,489	14,578
Non-controlling interests	**–**	–	–	–
	100,033	72,154	23,489	14,578

ASSETS AND LIABILITIES

	As at 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,337,949**	1,041,627	749,986	569,560
Total liabilities	**(660,098)**	(710,280)	(485,793)	(328,856)
	677,851	331,347	264,193	240,704
Equity attributable to owners of the Company	**677,851**	331,347	259,193	235,704
Non-controlling interests	**–**	–	5,000	5,000
	677,851	331,347	264,193	240,704

Note: The results for three years ended 31 December 2015 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the years ended 31 December 2013, 2014 and 2015 have been extracted from the Company's prospectus dated 30 November 2016 (the "**Prospectus**").

Dear Shareholders,

On behalf of the board (the "**Board**") of Directors (the "**Directors**") of the Group, I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2016.

LISTING ON THE STOCK EXCHANGE ON 12 DECEMBER 2016

Nanfang Communication Holdings Limited was successfully listed on the Main Board of the Stock Exchange on 12 December 2016.

BUSINESS REVIEW

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

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

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

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

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

Chairman's Statement

OUTLOOK

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

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

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

APPRECIATION

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

Yu Jinlai
Chairman

Hong Kong, 24 March 2017

A. FINANCIAL REVIEW

Revenue

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

Gross profit and margin

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

Other income, gains, expenses and losses, net

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

Selling and distribution expenses

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

Administrative expenses

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

Research costs

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

Finance costs

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

Management Discussion and Analysis

Income tax expense

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

Profit and total comprehensive income attributable to owners of the Company

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

Liquidity, financial and capital resources

Cash position

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

Borrowings and charges on the Group's assets

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

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

Gearing ratio

As at 31 December 2016, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 97.4% (2015: 214.4%).

Currency risk

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

Interest rate risk

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

Credit risk

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

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

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

Liquidity risk

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

Capital commitments

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

Save for the reorganisation arrangements undergone by the Group in preparation for the Listing (hereinunder referred to as the "**Reorganisation**"), the Group did not have any material acquisitions and disposals for the year ended 31 December 2016.

Future plans for material investments

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

Employees, remuneration policies and Share Option Scheme

As at 31 December 2016, the Group had approximately 360 employees. For the year ended 31 December 2016, the Group incurred staff costs of approximately RMB32.6 million. As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

B. USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 12 December 2016, the Company issued 280,000,000 shares at an offer price of HK$1.02 per share through an initial public offering (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.

Significant investments and material acquisitions

The Group did not have any significant investments or material acquisitions for the year ended 31 December 2016.

Contingent liabilities and litigation

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

C. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. The Company will issue a separate Environmental, Social and Governance Report no later than three months after the date of this report in compliance with the Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

D. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

E. COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in the Prospectus, during the year ended 31 December 2016, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Shi Ming (石明先生), aged 45, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. He is also our chief executive officer. Mr. Shi was appointed as a general manager of Jiangsu Nanfang Communication Technology Company Limited ("**Nanfang Communication**") in June 2007. Mr. Shi is mainly responsible for overseeing our overall management and operations, investment strategies and business development. Mr. Shi is also a director of each of Century Planet Limited ("**Century Planet**"), Nanfang Communication Group Limited ("**Nanfang Hong Kong**"), MacroSmart Investment Limited ("**MacroSmart**", formerly known as Changzhou Delong Communication Technology Limited), Yingke and Nanfang Optic. Mr. Shi had worked in a number of well-known PRC corporations and multinational corporations and has over 15 years of experience in enterprise management.

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

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

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

Ms. Yu Rumin (於茹敏女士), aged 40, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. She is one of the controlling shareholders of the Company. Ms. Yu joined our Group as a manager in the enamelled wire business development department of Nanfang Communication in May 2001 and was appointed as a vice general manager of Nanfang Communication in October 2011. Ms. Yu is primarily responsible for overseeing business development, financial control and human resources management. Ms. Yu is also a director of each of Century Planet, Nanfang Hong Kong, Yingke and Nanfang Optic.

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

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

Ms. Yu Ruping (於茹萍女士) ("**Ms. Yu RP**"), aged 41, was appointed as our Director on 10 May 2016 and was designated as our executive Director on 22 June 2016. She is one of the controlling shareholders of the Company. Ms. Yu RP joined our Group as a finance officer of Nanfang Communication in September 2006, and has been mainly responsible for supervising the accounting and internal audit functions of the Group. Ms. Yu RP is a director of each of Century Planet, Nanfang Hong Kong and MacroSmart. She is also a supervisor of Nanfang Optic.

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

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

NON-EXECUTIVE DIRECTOR

Mr. Yu Jinlai (於金來先生), aged 68, was appointed as our Director on 10 May 2016 and was designated as our non-executive Director on 22 June 2016. He is the chairman of the Board and one of the controlling shareholders of the Company. Mr. Yu has been acting as the legal representative of Nanfang Communication since July 1992 when Nanfang Communication was first established. He has been a director of Nanfang Communication since 1998. He is mainly responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Yu is also a director of MacroSmart and Yingke.

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

Mr. Yu is the father of Ms. Yu and Ms. Yu RP and father-in-law of Mr. Shi.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Wing Kuen (胡永權先生), aged 60, was appointed as our independent non-executive Director on 24 November 2016. Mr. Wu was awarded a Bronze Bauhinia Star from the Hong Kong Government in July 2012 in recognition for his meritorious public and community services. He is currently a member of the Chinese People's Political Consultative Conference of Harbin City and a member of the Chinese People's Political Consultative Conference of Nanshan District in Shenzhen. Mr. Wu is currently a voting member of the Hong Kong Jockey Club and the chairman of the Sha Tin District Community Fund. He is a member of the Sha Tin District Fight Crime Committee and a member of the Appeal Tribunals Panel of the Planning and Lands Branch of the Development Bureau of the Hong Kong Government.

Mr Wu is currently the independent non-executive director of Hongguang Lighting Holdings Company Limited (stock code: 8343).

Mr. Chan Kai Wing (陳繼榮先生), aged 56, was appointed as our independent non-executive Director on 24 November 2016. Mr. Chan has over 20 years of professional experience in accounting and financial advisory services. Mr. Chan obtained a bachelor degree of economics from Macquarie University, Australia in April 1986. He is a fellow member of CPA Australia.

Mr Chan is currently the independent non-executive director of China Assurance Finance Group Limited (stock code: 8090), China Conch Venture Holdings Limited (stock code: 586), Bisu Technology Group International Limited (formerly known as Excel Development (Holdings) Limited) (stock code: 1372) and Sino Golf Holdings Limited (stock code: 361). Mr. Chan was also a director and the financial controller of Shenzhen China Bicycle Company (Holdings) Limited, a company whose A shares are listed on the Shenzhen Stock Exchange, between 1991 and 1999.

Mr. Lam Chi Keung (林芝強先生), aged 46, was appointed as our independent non-executive Director on 24 November 2016. Mr. Lam has over 15 years of professional experience in accounting and financial management and held various finance/accounting-related positions in international accounting firms and companies. Mr. Lam obtained a bachelor degree of science in accounting from Brigham Young University-Hawaii in December 1996. He also obtained a master degree of science in e-commerce from the Chinese University of Hong Kong in December 2002. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and a member of the American Institute of Certified Public Accountants.

Mr Lam is currently an independent non-executive director of Universe International Financial Holdings Limited (stock code: 1046). He was an executive director of Co-Prosperity Holdings Limited (stock code: 707) and Sino Haijing Holdings Limited (stock code: 1106), and an independent non-executive director of Convoy Global Holdings Limited (stock code: 1019).

SENIOR MANAGEMENT'S PROFILE

Mr. Huang Zhengou (黃正歐先生), aged 55, was appointed as the deputy general manager and head of production management centre of Nanfang Communication in March 2016. He joined Nanfang Communication in November 2012 as a technical supervisor (技術總監). Mr. Huang is mainly responsible for the overall manufacturing management and research and development of the Group. Mr. Huang graduated from Yangzhou Industry Technical College (揚州工業專科學校) in December 1981 with major in machinery manufacturing. Mr. Huang completed machinery design and manufacturing courses at Mechanical Engineer Further Education University (機械工程師進修大學) in October 1989. Mr. Huang is a qualified senior engineer (高級工程師).

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

Mr. Hong Liuming (洪留明先生), aged 44, was appointed as head of quality control centre in February 2016. Mr. Hong is mainly responsible for the management of the production quality control of the Group. Mr. Hong received a bachelor degree in nuclear energy and heat energy utilisation from Tsinghua University (清華大學) in July 1996. Mr. Hong is a qualified senior engineer (高級工程師). Mr. Hong has more than 10 years of experience in product management.

Prior to joining the Group, Mr. Hong worked for Jiangsu Fasten Photonics Co., Ltd (江蘇法爾勝光子有限公司), a company with principal activity in production of optical fibre cables, and his last position was assistant to the general manager between 2012 and 2016.

Mr. Zhu Xiaolei (朱曉雷先生), aged 48, was appointed as our general manager in sales in March 2016. Mr. Zhu joined the Group as a sales personnel in May 1997. Mr. Zhu is mainly responsible for supervising the overall sales strategies and bidding process of the Group. Mr. Zhu completed a three-year professional study in economic management from Cadre Correspondence School of CPC Jiangsu Provincial Party School (中共江蘇省委黨校幹部函授學院) in July 2008.

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

Directors' and Senior Management's Profile

Ms. Dong Chunlan (董春蘭女士), aged 45, was appointed as a head of supply chain management centre in March 2016. She joined the Group as an operation management officer in May 2009. Ms. Dong is mainly responsible for managing material procurement and logistics of the Group. Ms. Dong graduated from Qinghai University (青海大學) with a bachelor degree in chemical engineering in July 1993. She also obtained a bachelor degree in industrial foreign trade from Nanjing University of Science and Technology (南京理工大學) in June 1997.

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

Ms. Lo Moon Fong (羅滿芳女士), aged 41, was appointed as the company secretary and finance manager in June 2016. She is responsible for financial reporting and compliance of the Group. Ms. Lo graduated with a bachelor degree in business administration from the Hong Kong University of Science and Technology in November 1998. She is a member of the HKICPA and is a Certified Financial Planner.

Ms. Lo has over 18 years of experience in the accounting, tax and finance industry. Between August 1998 and October 2006, Ms. Lo worked in PricewaterhouseCoopers Limited in Hong Kong, specialising in tax services. Between September 2006 and June 2015, she worked in Convoy Financial Services Limited providing financial management and advisory services. Ms. Lo was the company secretary of New City Development Group Limited (stock code: 456), whose shares are listed on the Main Board of the Stock Exchange and a company with principal activity in property development and investment in the PRC, between April 2012 and July 2015.

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on page 36 to 84 of the report.

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

BUSINESS REVIEW

Details of which, are set out in the paragraph headed "Chairman's Statement" on pages 7 to 8 of the report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest suppliers contributed 71.5% of the Group's total purchase. The Group held 49% interest in Nanfang Optic, being the largest supplier, which has attributed to 53.1% of the Group's total purchase.

The Group sold products directly to customers which included the Major PRC Telecommunication Network Operators. The largest customer has accounted for approximately 47.5% of the total sales. The Group's entire sales came from top five customers. Save as disclosed above, none of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 29 to the consolidated financial statement.

DISTRIBUTABLE RESERVES

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

Report of the Directors

As at 31 December 2016, the Company's reserves available for distribution are as follows:

	RMB'000
Share premium	241,079
Accumulated losses	(17,616)
	223,463

DIRECTORS

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

Chairman and Non-Executive Director

Mr. Yu Jinlai (appointed on 10 May 2016)

Executive Directors

Mr. Shi Ming (Chief executive officer)(appointed on 10 May 2016)
Ms. Yu Rumin (appointed on 10 May 2016)
Ms. Yu Ruping (appointed on 10 May 2016)

Independent Non-Executive Directors

Mr. Wu Wing Kuen (appointed on 24 November 2016)
Mr. Lam Chi Keung (appointed on 24 November 2016)
Mr. Chan Kai Wing (appointed on 24 November 2016)

In accordance with the articles of association of the Company (the "**Articles**"), Mr. Shi Ming, Ms. Yu Rumin, and Ms. Yu Ruping shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company on 12 December 2016 for a term of three years commencing from the date of Listing, and such service agreements may be terminated in accordance with the terms of the service agreements.

Each of the non-executive Director and independent non-executive Directors was appointed by the Board pursuant to their respective letters of appointment dated 12 December 2016, for an initial term of three year commencing from the date of Listing, and such appointment may be terminated in accordance with the terms of the letters of appointment.

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

Saved as disclosed herein, no Director proposed for re-election at the forthcoming AGM has a service contract that is not determinable within one year without payment of compensation, other than statutory compensation.

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

Each of the non-executive Director and independent non-executive Directors is entitled to a Director's fee pursuant to their respective letters of appointment, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. Save for Director's fee, each of the non-executive Director and independent non-executive Directors is not expected to receive any other remuneration for holding his office as a non- executive Director or an independent non-executive Director respectively.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

Controlling shareholders' interest in contracts

Save as the related party transactions disclosed in note 35 to the consolidated financial statements, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which any of the controlling shareholder (as defined in the Listing Rules) had a material interest subsisted at the end of the year or at any time during the year.

Non-competition undertaking by controlling shareholders

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

Directors' interest in contracts

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

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

As at 31 December 2016, 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 [(2)]	Approximate % of shareholding
Mr. Yu Jinlai [(1)]	Interests held jointly with another person; interests in a controlled corporation	840,000,000 (L)	75
Ms. Yu Rumin [(1)]	Interests held jointly with another person; interests in a controlled corporation	840,000,000 (L)	75
Ms. Yu Ruping [(1)]	Interests held jointly with another person; interests in a controlled corporation	840,000,000 (L)	75
Mr. Shi Ming [(3)]	Interests of spouse	840,000,000 (L)	75

Notes:

(1) Pacific Mind Development Limited (a company owned by Mr. Yu Jinlai (as to 10%), Ms. Yu Ruping (as to 30%), and Ms. Yu Rumin (as to 60%)) held 840,000,000 shares of the Company, representing 75% of the issued share capital of the Company. For the purposes of the SFO, Mr. Yu Jinlai, Ms. Yu Rumin, and Ms. Yu Ruping were deemed to be interested in 840,000,000 shares of the Company.

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

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

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

Under the Share Option Scheme, the Board may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

The maximum entitlement of each Eligible Participants under the Share Option Scheme shall be:

(a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to an Eligible Participant under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant is subject to the shareholders' approval; and

(b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5,000,000, within any twelve month period, are subject to shareholders' approval in advance in a general meeting.

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

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

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2016.

No share-based payment expense was recognised for the year ended 31 December 2016 in relation to share options granted by the Company.

As the date of the 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 that date.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Directors or chief executive of the Company, as at 31 December 2016, 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 [(2)]	Approximate % of shareholding
Pacific Mind Development Limited [(1)]	Beneficial owner	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

Notes:

(1) Pacific Mind Development Limited, a company incorporated with limited liability in the British Virgin Islands, is owned by Mr. Yu Jinlai (as to 10%), Ms. Yu Ruping (as to 30%), and Ms. Yu Rumin (as to 60%).

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

(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.

Save as disclosed above, as at 31 December 2016, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the date of Listing 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.

PRE-EMPTIVE RIGHTS

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

DONATION

During the financial year, the Group made charitable and other donations amounting to HK$1,000,000.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS AND DIVIDEND PAYMENT

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

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

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

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messers. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yu Jinlai
Chairman

24 March 2017, Hong Kong

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code since the date of Listing and up to the date of this 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 throughout the period since the date of Listing and up to the date of this report.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

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

PUBLICATION OF THE ANNUAL REPORT

The Company's 2016 annual report will be despatched to the Company's shareholders on or before 28 April 2017 and will be available at the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on 20 June 2017 (Tuesday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

THE BOARD OF DIRECTORS

Composition and role of the Board

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

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

Biographical details (including age, gender and length of service) of the Board members are set out on pages 13 to 15 of this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

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

In accordance with the Articles, Mr. Shi Ming, Ms. Yu Rumin and Ms. Yu Ruping shall retire from office, and, being eligible, offer themselves for re-election at the AGM.

ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

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

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

BOARD MEETING

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

The attendance record of Directors and committee members is as follows:

Since the date of Listing and up to the date of this report, the Company held a Board meeting, an Audit Committee meeting, a Remuneration Committee meeting and a Nomination Committee meeting on 24 March 2017. The attendance record of each Director at the above-mentioned Board meeting and committee meetings has been set out below.

	Attendance/Number of			
Name of Directors	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**
Chairman and non-executive Director				
Mr. Yu Jinlai	1/1	N/A	N/A	1/1
Executive Directors				
Mr. Shi Ming (Chief executive officer)	1/1	N/A	N/A	N/A
Ms. Yu Rumin	1/1	N/A	1/1	N/A
Ms. Yu Ruping	1/1	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Wu Wing Kuen	1/1	1/1	1/1	N/A
Mr. Lam Chi Keung	1/1	1/1	N/A	1/1
Mr. Chan Kai Wing	1/1	1/1	1/1	1/1

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

Pursuant to the afore-said meeting, the Audit Committee had, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the year ended 31 December 2016 and this report, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate thereof.

REMUNERATION COMMITTEE

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

The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management of the Group and other related matters. Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

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

NOMINATION COMMITTEE

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

The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings. Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

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

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Company's external auditor in respect of audit and non-audit services for the year ended 31 December 2016 are as follows:

Nature of services	**Amount** (RMB'000)
Audit services	680
Other assurance services	Nil
Non-assurance services	Nil

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 36 to 84 of this annual report. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the paragraph headed "Independent Auditor's Report" on pages 32 to 35 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Since the date of Listing and up to the date of this report, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers the Group's risk management and internal control is adequate and effective.

COMPANY SECRETARY

Since the date of Listing and up to the date of this report, the company secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

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

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

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

Enquiries put to the Board

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

INVESTOR RELATIONS

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

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Nanfang Communication Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 36 to 84, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimates in assessing the allowance for doubtful debts. At 31 December 2016, the carrying amount of trade receivables is RMB484,063,000 (net of allowance for doubtful debts of RMB6,173,000) as disclosed in note 19 to the consolidated financial statements. In assessing the allowance for doubtful debts, the management considers the credit quality of individual trade receivables, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables, as disclosed in note 4 to the consolidated financial statements.	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding of the Group's credit policy granted to customers, credit controls and how the allowance for doubtful debts is estimated by the management; • Testing the ageing analysis of the trade receivables, on a sample basis, to the source documents; and • Assessing the reasonableness of allowance for doubtful debts with reference to the credit quality of individual trade receivables, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
		Year ended 31 December	
Revenue	5	**805,921**	612,637
Cost of sales		**(623,660)**	(490,660)
Gross profit		**182,261**	121,977
Other income, gains, expenses and losses, net	7	**206**	(656)
Selling and distribution expenses		**(10,580)**	(8,976)
Administrative expenses		**(25,824)**	(16,488)
Listing expenses		**(22,381)**	–
Research costs		**(27,360)**	(20,101)
Finance costs	8	**(5,096)**	(8,542)
Share of results of an associate	16	**23,360**	14,478
Profit before tax	10	**114,586**	81,692
Income tax expense	9	**(14,553)**	(9,538)
Profit and total comprehensive income for the year		**100,033**	72,154
Profit and total comprehensive income for the year attributable to:			
– Owners of the Company		**100,033**	72,154
– Non-controlling interests		**–**	–
		100,033	72,154
Earnings per share	12		
– Basic		**RMB0.12**	RMB0.09
– Diluted		**RMB0.12**	N/A

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
		At 31 December	
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**84,556**	83,063
Prepaid lease payments	*15*	**12,820**	1,313
Interest in an associate	*16*	**91,554**	91,571
Prepayments for property, plant and equipment and prepaid lease payments	*21*	**6,846**	12,452
Deferred tax assets	*27*	**5,578**	1,411
		201,354	189,810
CURRENT ASSETS			
Inventories	*18*	**57,304**	52,556
Trade receivables	*19*	**484,063**	443,688
Bills receivable	*20*	**267**	4,381
Prepaid lease payments	*15*	**258**	29
Prepayments, deposits and other receivables	*21*	**36,547**	24,930
Available-for-sale investments	*17*	**230**	230
Restricted bank balances	*22*	**119,386**	135,362
Bank balances and cash	*22*	**438,540**	190,641
		1,136,595	851,817
CURRENT LIABILITIES			
Trade payables	*24*	**200,589**	235,403
Bills payable	*25*	**195,273**	239,082
Advances from customers and other payables	*26*	**97,414**	86,798
Borrowings	*23*	**118,877**	129,000
Current income tax liabilities		**36,754**	19,997
		648,907	710,280
NET CURRENT ASSETS		**487,688**	141,537
TOTAL ASSETS LESS CURRENT LIABILITIES		**689,042**	331,347

Consolidated Statement of Financial Position – Continued

As at 31 December 2016

		At 31 December	
		2016	2015
	Notes	**RMB'000**	RMB'000
CAPITAL AND RESERVES			
Share capital/Paid-in capital	*29*	**997**	108,900
Reserves		**676,854**	222,447
Equity attributable to owners of the Company		**677,851**	331,347
Non-controlling interests		**–**	–
TOTAL EQUITY		**677,851**	331,347
NON-CURRENT LIABILITIES			
Deferred revenue	*28*	**11,191**	–
		689,042	331,347

The consolidated financial statements on pages 36 to 84 were approved and authorised for issue by the Board of Directors on 24 March 2017 and are signed on its behalf by:

Shi Ming
Director

Yu Rumin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Equity attributable to owners of the Company							
	Share capital/ Paid-in capital	**Share premium**	**Other reserve**	**Surplus reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000 *(Note (a))*	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	108,900	–	–	10,938	139,355	259,193	5,000	264,193
Profit and total comprehensive income for the year	–	–	–	–	72,154	72,154	–	72,154
Appropriation for the year	–	–	–	5,729	(5,729)	–	–	–
Reduction of capital of a subsidiary	–	–	–	–	–	–	(4,500)	(4,500)
Acquisition of non-controlling interests	–	–	–	–	–	–	(500)	(500)
At 31 December 2015	108,900	–	–	16,667	205,780	331,347	–	331,347
Profit and total comprehensive income for the year	–	–	–	–	100,033	100,033	–	100,033
Appropriation for the year	–	–	–	9,454	(9,454)	–	–	–
Repayment of paid-up capital of a subsidiary to its shareholders pursuant to the Reorganisation *(Note 1)*	(108,900)	–	–	–	–	(108,900)	–	(108,900)
Issue of ordinary shares by capitalisation of share premium *(Note 29)*	748	(748)	–	–	–	–	–	–
Issue of ordinary shares *(Note 29)*	249	254,026	–	–	–	254,275	–	254,275
Listing expenses related to the issue of ordinary shares	–	(12,199)	–	–	–	(12,199)	–	(12,199)
Advanced by shareholders of the Company's ultimate holding company waived *(Note (b))*	–	–	113,295	–	–	113,295	–	113,295
At 31 December 2016	997	241,079	113,295	26,121	296,359	677,851	–	677,851

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 500,000 and Hong Kong Dollars 128,200,000 (equivalent to RMB113,295,000 in aggregate) advanced by them to Century Planet Limited, the Company's directly wholly owned subsidiary, for paying up the registered capital of its indirectly wholly owned subsidiary, MacroSmart Investment Limited (formerly known as Changzhou Delong Communication Technology Limited).

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**114,586**	81,692
Adjustments for:		
Interest income	**(2,727)**	(1,702)
Depreciation of property, plant and equipment	**7,518**	3,848
Release of prepaid lease payments	**258**	29
Government grant recognised	**(229)**	–
Foreign exchange gains, net	**(542)**	–
Allowance for impairment of trade receivables	**3,027**	1,121
Finance costs	**5,096**	8,542
Share of results of an associate	**(23,360)**	(14,478)
Operating cash flows before movements in working capital	**103,627**	79,052
Increase in inventories	**(5,871)**	(5,975)
Increase in trade, bills and other receivables, deposits and prepayments	**(26,445)**	(125,536)
Decrease (increase) in restricted bank balances	**15,976**	(27,581)
(Decrease) increase in trade, bills and other payables and advances from customers	**(51,324)**	233,219
Cash generated from operations	**35,963**	153,179
Income tax paid	**(1,963)**	(1,097)
NET CASH FROM OPERATING ACTIVITIES	**34,000**	152,082
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and prepaid lease payments	**(20,748)**	(36,120)
Redemption of an available-for-sale investment	**–**	600
Advances made to related parties and others	**–**	(5,220)
Repayments from related parties and others	**40**	45,314
Interest received	**2,727**	1,702
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(17,981)**	6,276

Consolidated Statement of Cash Flows – Continued

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Proceeds from borrowings	**192,377**	212,000
Repayments of borrowings	**(202,500)**	(247,000)
Advance from shareholders of the Company's ultimate holding company	**113,295**	–
Issue of ordinary shares	**254,275**	–
Listing expenses related to the issue of ordinary shares paid	**(12,199)**	–
Repayment of capital to a non-controlling shareholder due to reduction of capital of a subsidiary	**–**	(4,500)
Repayment of capital to shareholders of a subsidiary	**(108,900)**	–
Acquisition of non-controlling interests	**–**	(500)
Payment of interest expense	**(5,010)**	(9,101)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**231,338**	(49,101)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**247,357**	109,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**190,641**	81,384
Effect of exchange rate changes on the balances of cash held in foreign currencies	**542**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by:		
Bank balances and cash	**438,540**	190,641

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

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

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

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

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

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

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

(i) Incorporation of the Company

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

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

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

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(iii) Incorporation of Nanfang Hong Kong by Century Planet

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

(iv) Establishment of MacroSmart

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

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

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

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

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

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

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

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9 are described below:

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

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

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

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 9 *Financial Instruments* (continued)

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

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

– has the power over the investee;

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of entity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Investment in an associate

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

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in an associate (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Foreign currencies

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

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

Construction in progress, which represents assets under construction, is stated at cost less impairment loss, if any. When the assets are completed and ready for use, the carrying amount of the assets will be reclassified to property, plant and equipment and depreciated in accordance with the policy as set out above.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Current and deferred tax for the year

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

Leasing

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

The Group as lessee

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risk and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions as incurred.

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as available-for-sale ("**AFS**") investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Income is recognised on an effective interest basis.

AFS investments

AFS equity securities held by the Group that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables, deposits, restricted bank balances and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

When an AFS investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Effective interest method

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes and discounts.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditure

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration of the credit quality of individual trade receivables, including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables for the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2016, the carrying amount of trade receivables is RMB484,063,000 (2015: RMB: RMB443,688,000) (net of allowance for doubtful debts of RMB6,173,000 (2015: RMB3,146,000)). When the actual future cash flows are less than expected, a material impairment loss may arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses in the consolidated statement of financial position. The estimation of their useful lives is the key element for the annual depreciation expense. Management estimates useful lives of property, plant and equipment based on their experience and historical production statistics. Should the useful lives of the Group's property, plant and equipment be deviated from the estimation, higher/lower depreciation expense would lead to a decrease/ increase the Group's profit respectively. Property, plant and equipment are evaluated for any possible impairment on a specific asset or in groups of similar assets, as applicable. This process requires the management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value is written down to the recoverable amount and the impairment loss recognised is charged to profit or loss.

Recognition of deferred tax assets

As at 31 December 2016, deferred tax assets of RMB5,578,000 (2015: RMB1,411,00) was recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the periods in which such a situation takes place.

5. REVENUE

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

6. SEGMENT INFORMATION

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

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

Geographical information

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

6. SEGMENT INFORMATION (CONTINUED)

Major customers

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

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

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

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

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

8. FINANCE COSTS

The amount represents interest on bank and other loans.

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
PRC Enterprise Income Tax ("**EIT**")		
– Current tax	**18,720**	9,932
– Deferred tax *(Note 27)*	**(4,167)**	(394)
Total income tax recognised in profit or loss	**14,553**	9,538

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

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

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**114,586**	81,692
Tax at applicable tax rate at 15% in the PRC during the year *(Note1)*	**17,188**	12,254
Tax effect of expenses not deductible for tax purpose	**3,053**	724
Additional tax benefit applicable to the Group *(Note 2)*	**(2,052)**	(1,508)
Effect of share of results of an associate	**(3,504)**	(2,172)
Effect of a subsidiary subject to different applicable tax rate	**(132)**	240
Income tax expense for the year	**14,553**	9,538

Notes:

1. During the year, the PRC EIT rate of 15% is applicable to Nanfang Communication that accounts for substantial operation of the Group.

2. Pursuant to the relevant tax rules and regulations, expenses in research nature are deductible at 50% of the cost incurred additionally.

10. PROFIT BEFORE TAX

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,518**	3,848
Release of prepaid lease payments	**258**	29
Auditor's remuneration	**680**	–
Staff costs (including the Directors' remuneration as disclosed in note 11 below):		
Salaries, wages and allowances	**30,211**	21,971
Retirement benefit scheme contributions	**2,424**	1,207
Total staff costs	**32,635**	23,178
Allowance for impairment of trade receivables	**3,027**	1,121
Cost of inventories recognised as cost of sales	**623,660**	490,660

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

Directors

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

	Fees RMB'000	Salaries, wages, and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2016				
Executive Directors				
Mr. Shi	–	1,110	92	1,202
Ms. Yu	–	515	28	543
Ms. Yu RP	–	509	27	536
Non-executive Director				
Mr. Yu	–	209	-	209
Independent non-executive Directors				
Mr. Wu Wing Kuen *(Note)*	12	–	–	12
Mr. Lam Chi Keung *(Note)*	10	–	–	10
Mr. Chan Kai Wing *(Note)*	10	–	–	10
	32	2,343	147	2,522

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

Directors (Continued)

	Fees RMB'000	Salaries, wages, and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2015				
Executive Directors				
Mr. Shi	–	346	36	382
Ms. Yu	–	162	28	190
Ms. Yu RP	–	113	18	131
Non-executive Director				
Mr. Yu	–	109	–	109
	–	730	82	812

Note: They were appointed as independent non-executive directors on 24 November 2016.

Employees

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2016, 3 individuals (2015: 3 individuals) were Directors whose emoluments are included in the disclosure above. The emoluments of the remaining 2 individuals (2015: 2 individuals) for the year ended 31 December 2016 were as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries, wages and allowance	**710**	310
Retirement benefit scheme contributions	**59**	51
	769	361

	Year ended 31 December	
	2016	2015
	(Number of employees)	
Less than HK$1,000,000	**2**	2

Mr. Shi is Chief Executive Officer of the Company and General Manager of the Group during the year whose emoluments have been included in the above.

During the years ended 31 December 2015 and 2016, no emoluments were paid by the Group to any of the Directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and none of the Directors waived any emoluments.

12. EARNINGS PER SHARE

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

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

The calculation of basic earnings per share for the year ended 31 December 2015 is based on 840,000,000 shares which were issued immediately after the Capitalisation Issue (as defined in note 29(c) below) and deemed to have been issued since 1 January 2015.

During the year ended 31 December 2016, the effect of the over-allotment option in relation to the Global Offering (as defined in note 29 (d)) on diluted earnings per share is insignificant.

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

13. DIVIDENDS

Subsequent to the end of the reporting period, the payment of a final dividend of HK¢2.7 (equivalent to RMB0.02) per ordinary share in respect of the year ended 31 December 2016, in an aggregate amount of HK$30,240,000 (equivalent to RMB26,824,000) out of the Company's share premium has been proposed by the board of directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming general meeting.

No dividend has been paid or proposed by the Group for the year ended 31 December 2015.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Leasehold improvements	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2015	12,624	47,178	–	6,890	14,557	81,249
Additions	–	14,478	–	353	36,749	51,580
Transfer from construction in progress	50,367	–	939	–	(51,306)	–
At 31 December 2015	62,991	61,656	939	7,243	–	132,829
Additions	–	4,325	4,360	326	–	9,011
At 31 December 2016	62,991	65,981	5,299	7,569	–	141,840
ACCUMULATED DEPRECIATION						
At 1 January 2015	5,923	33,562	–	6,433	–	45,918
Provided for the year	998	2,660	30	160	–	3,848
At 31 December 2015	6,921	36,222	30	6,593	–	49,766
Provided for the year	2,171	4,711	516	120	–	7,518
At 31 December 2016	9,092	40,933	546	6,713	–	57,284
CARRYING VALUE						
At 31 December 2015	56,070	25,434	909	650	–	83,063
At 31 December 2016	53,899	25,048	4,753	856	–	84,556

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

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

The Group's properties are located in the PRC and are held under medium term lease.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Buildings	**749**	167
Plant, machinery and equipment	**30,372**	29,346
Motor vehicles	**6,890**	6,890
	38,011	36,403

As at 31 December 2016, the Group is in the process of obtaining the property ownership certificates of certain buildings with carrying amounts of RMB327,000 (2015: RMB444,000).

15. PREPAID LEASE PAYMENTS

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current portion	**12,820**	1,313
Current portion	**258**	29
	13,078	1,342

The prepaid lease payments of the Group are held under medium-term leases in the PRC.

16. INTEREST IN AN ASSOCIATE

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

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Cost of investment in an associate, unlisted	73,500	73,500
Share of post-acquisition profit of an associate	18,054	18,071
	91,554	91,571

As at 31 December 2015 and 2016, the details of the Group's interest in an associate are as follows:

Name of entity	Form of business structure	Place and date of establishment	Place of operation	Proportion of equity interests held by the Group at 31 December 2016	Proportion of equity interests held by the Group at 31 December 2015	Proportion of voting rights at 31 December 2016	Proportion of voting rights at 31 December 2015	Principal activities
Jiangsu Nanfang Optic Electric Technology Company Limited (江蘇南方光纖科技有限公司)	Incorporated	The PRC 19 June 2013	The PRC	49%	49%	49%	49%	Manufacturing and sales of optical fibre

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Current assets	202,127	211,475
Non-current assets	137,638	144,512
Current liabilities	(152,920)	(169,108)
Net assets	186,845	186,879
Proportion of the Group's ownership interest therein	49%	49%
Group's share of net assets of an associate	91,554	91,571

16. INTEREST IN AN ASSOCIATE (CONTINUED)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue	**359,605**	278,839
Profit and total comprehensive income for the year	**49,966**	35,573
Group's share of profit of an associate*	**24,483**	17,431
Dividends receivable from an associate	**24,500**	–

* Included in the Group's share of profit of an associate is unrealised profit of RMB1,123,000 (2015: RMB2,953,000) for the year ended 31 December 2016 as a result of optical fibre sold by the associate to the Group remained unsold as at 31 December 2016.

17. AVAILABLE-FOR-SALE INVESTMENTS

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of investments, unlisted	**230**	230

The above investments are stated at cost less any identified impairment losses because they do not have reliable market price in an active market and, in the opinion of the Directors, whose fair value cannot be reliably measured.

18. INVENTORIES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	**28,141**	20,261
Work in progress	**7,523**	2,220
Finished goods	**21,640**	30,075
	57,304	52,556

19. TRADE RECEIVABLES

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

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

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

19. TRADE RECEIVABLES (CONTINUED)

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

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

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

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

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

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

Certain bank borrowings as at 31 December 2015 were secured by rights on trade receivables of the Group. Details of the bank borrowings are set out in note 23.

20. BILLS RECEIVABLE

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Prepayments for inventories	**7,379**	16,778
Prepayments for property, plant and equipment and prepaid lease payments	**6,846**	12,452
Deposits paid	**3,049**	3,809
Dividends receivable from an associate	**24,500**	–
Value-added-tax ("**VAT**") recoverable	**–**	1,825
Other receivables		
– Due from local government	**–**	46
– Others	**1,619**	2,472
	43,393	37,382
Less: Portion classified as non-current	**(6,846)**	(12,452)
Current portion	**36,547**	24,930

The amounts due from the local government and others are unsecured and interest-free.

22. RESTRICTED BANK BALANCES, BANK BALANCES AND CASH

Restricted bank balances and bank balances carry interest at prevailing market interest rates ranging from 0.3% to 0.35% per annum (2015: from 0.3% to 0.35% per annum) during the year.

As at 31 December 2015 and 2016, the Group's restricted bank balances were pledged to banks for issuing bills payable (see note 25).

As at 31 December 2016, the Group's restricted bank balances and bank balances of RMB247,514,000 (2015: Nil) are denominated in Hong Kong Dollar ("**HK$**").

23. BORROWINGS

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Analysed as:		
– At fixed interest rate	**80,877**	70,000
– At variable interest rate	**38,000**	59,000
	118,877	129,000

The ranges of interest rates (which are also equal to contracted interest rates) per annum on the Group's borrowings are as follows:

	At 31 December	
	2016	2015
Fixed interest rate	**1.7% – 4.5%**	3.3%-5.6%
Floating interest rate	**4.4%**	4.1%-4.7%

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

Notes:

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

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

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

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

(d) As at 31 December 2016, the Group's borrowings of RMB7,380,000 (2015: Nil) and RMB4,997,000 (2015: Nil) are denominated in HK$ and US$, respectively.

24. TRADE PAYABLES

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

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

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

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

25. BILLS PAYABLE

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

26. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Advances from customers	**284**	1,110
Other payables *(Note)*	**16,195**	30,332
Listing expenses payable	**9,570**	–
Staff costs payables	**15,556**	9,452
Other taxes payable	**55,809**	45,904
	97,414	86,798

Note: Other payables mainly included interest payable, transportation costs payables, construction payables and a payable relating to purchase of the Group's land use rights.

Included in the listing expenses payable are amounts of RMB8,744,000 (2015: Nil) and RMB190,000 (2015: Nil) denominated in HK$ and US$, respectively.

27. DEFERRED TAX ASSETS

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets	**5,578**	1,411

The movement in deferred tax assets during the year is as follows:

	Allowance for impairment of trade receivables	**Deferred revenue**	**Accruals for staff costs**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	304	–	713	1,017
Credit to profit or loss	168	–	226	394
		–		
At 31 December 2015	472	–	939	1,411
Credit to profit or loss	454	2,798	915	4,167
At 31 December 2016	926	2,798	1,854	5,578

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries and an associate of a PRC subsidiary amounting to RMB314,054,000 (2015: RMB205,781,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. DEFERRED REVENUE

The deferred revenue represents subsidies for the Group's prepaid lease premium.

In 2014, the Group received a subsidy of RMB11,420,000 from a local bureau in respect of a piece of land purchased by the Group with attached conditions including, amongst others, construction of a production plant on the land, commencement of production of such production plant, revenue target for the year ended 31 December 2015 derived from the production plant, etc. Such subsidy is refundable if the conditions are not met. As at 31 December 2015, the amount was included in other payables as the conditions were not fully met. In 2016, the Group confirmed with the local bureau that the relevant conditions have been met and the amount was reclassified from other payables to deferred revenue which is released to profit or loss over the lease terms of the land. During the year, the Group recognised RMB229,000 in profit or loss (2015: Nil).

29. SHARE CAPITAL/PAID-IN CAPITAL

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

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

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

Presented in the consolidated financial statements as

	RMB’000
At 31 December 2016	997

Notes:

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

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

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

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

30. SHARE OPTION SCHEME

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

Under the Share Option Scheme, the board of directors of the Company may, at its discretion, grant options to subscribe for ordinary shares of the Company to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the ordinary share capital of the Company in issue from time to time. The total number of ordinary shares which may be allotted and issued upon exercise of all options to be granted under Share Options Scheme and any other share option of the Group must not in aggregate exceed 10% of the ordinary shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares at the date of the grant) in excess of HK$5,000,000, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

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

30. SHARE OPTIONS SCHEME (CONTINUED)

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2016.

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts (mainly bank and other loans), net of bank balances and cash, and equity attributable to owners of the Company, comprising share capital/paid-in capital and reserves.

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

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including restricted bank balances, bank balances and cash)	**1,071,424**	780,399
Available-for-sale investments	**230**	230
Financial liabilities		
Amortised cost	**(556,060)**	(643,269)

Financial risk management objectives and policies

The major financial instruments include available-for-sale investments, trade, bills and other receivables, deposits, restricted bank balances, bank balances and cash, trade, bills and other payables, and borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

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

Currency risk

While the Group's operations were principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has bank balances, listing expenses payable and bank loans denominated in foreign currencies. The Group does not use any derivative contracts to hedge against its exposure to currency risk, however, the Directors manage its foreign currency risk by closely monitoring the movement of the foreign currency rate.

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Assets		
Bank balances		
– HK$	**247,514**	–
Liabilities		
Listing expenses payable		
–HK$	**(8,744)**	–
–US$	**(190)**	–
Bank loans		
–HK$	**(7,380)**	–
–US$	**(4,997)**	–

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk (continued)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
RMB strengthen 5% against HK$		
Decrease in post-tax profit	**11,570**	–
RMB strengthen 5% against US$		
Increase in post-tax profit	**259**	–

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities, mainly bank balances and borrowings which carried/bore 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.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing bank balances and borrowings (based on PRC inter-bank loan prime rate) at the end of the reporting period and assumed that these amounts outstanding at the end of the reporting period were outstanding for the whole relevant year.

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Increase in post-tax profit	**474**	219

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

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

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

The credit risk on restricted bank balances and bank balances is minimal as such amounts are placed in banks with good reputation.

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

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

Liquidity risk

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

	Weighted average effective interest rate	Repayable on demand or less than six months	Seven months to one year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016					
Borrowings					
– at variable rate	4.4	38,449	–	38,449	38,000
– at fixed rate	3.9	63,658	18,110	81,768	80,877
Trade, bills and other payables	–	437,183	–	437,183	437,183
		539,290	18,110	557,400	556,060
At 31 December 2015					
Borrowings					
– at variable rate	4.4	59,511	–	59,511	59,000
– at fixed rate	4.8	58,063	13,177	71,240	70,000
Trade, bills and other payables	–	514,269	–	514,269	514,269
		631,843	13,177	645,020	643,269

Fair value

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

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

33. MAJOR NON-CASH TRANSACTION

During the year, the waive of the advance by shareholders of the Company's ultimate holding company, as detailed in note (b) in the consolidated statement of changes in equity, is a non-cash transaction.

34. CAPITAL COMMITMENTS

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	**3,014**	3,115

35. RELATED PARTY TRANSACTIONS

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Purchases of optical fibre from an associate	**348,723**	208,518

The above transactions were conducted in accordance with the relevant agreements.

Besides, in 2015, Mr. Yu and his spouse, Jing Ke, Ms. Yu RP, Mr. Shi and Ms. Yu provided guarantees to certain banks in favour of the Group for granting certain bank loans at nil consideration. These guarantees were released in 2016.

In addition to the above, the remuneration of Directors and other members of key management during the year were as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Short-term benefits	**3,575**	1,153
Post-employment benefits	**248**	150
	3,823	1,303

36. GENERAL INFORMATION OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2016 are set out as follows:

Name of subsidiary	Place and date of incorporation/ establishment and place of operation	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Company at 31 December		Principal activities
			2016	2015	
Directly held:					
Century Planet	BVI 4 January 2016	Ordinary share capital of US$1	100%	N/A	Investment holding
Indirectly held:					
Nanfang Hong Kong	Hong Kong 10 March 2016	Ordinary share capital of HK$10,000	100%	N/A	Investment holding
MacroSmart#	The PRC 16 May 2016	Registered capital of US$17,000,000 Paid-up registered capital of RMB113,295,329	100%	N/A	Research and development of communication devices and accessories, technology consultation and transfer of technology
Nanfang Communication*	The PRC 27 July 1992	Registered capital of RMB308,900,000 Paid-up registered capital of RMB222,195,329	100%	100%	Manufacturing and sales of optical fibre cables
Yingke*	The PRC 8 August 2013	Registered capital of RMB10,000,000 Paid-up registered capital of RMB10,000,000	100%	100%	Manufacturing and sales of optical fibre cables

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

* These companies are limited liability companies established in the PRC.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At December 31 2016 RMB'000
NON-CURRENT ASSETS	
Investment in a subsidiary	*–
CURRENT ASSETS	
Bank balances and cash	247,147
CURRENT LIABILITIES	
Listing expenses payable	9,570
Other payables	225
Due to subsidiaries	12,892
	22,687
NET CURRENT ASSETS	224,460
TOTAL ASSETS LESS CURRENT LIABILITIES	224,460
CAPITAL AND RESERVES	
Share capital	997
Reserves	223,463
TOTAL EQUITY	224,460

* Amounts less than RMB1,000.

Movements of the Company's reserves

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 10 May 2016 (date of incorporation)	–	–	–
Issue of ordinary shares by capitalisation of share premium	(748)	–	(748)
Issue of ordinary shares	254,026	–	254,026
Listing expenses related to the issue of ordinary shares	(12,199)	–	(12,199)
Loss and total comprehensive expense for the year	–	(17,616)	(17,616)
At 31 December 2016	241,079	(17,616)	223,463