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智慧聯接 啟動未來

2020
ANNUAL REPORT

南方通信
Nanfang Communication

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

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1617)

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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

Unit 903, 9/F., Capital Centre
151 Gloucester Road
Wan Chai, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

1 Cencun Road, Luoyang Town
Wujin District, Changzhou City
Jiangsu Province, The People's Republic of China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.jsnfgroup.com

STOCK CODE

1617

Company Profile

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

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

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

On 12 December 2016, the shares of the Company were successfully listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). As of 31 December 2020, the Company had 1,120,000,000 issued shares (the "**Shares**").

Financial Highlights

For the year ended 31 December 2020, the Group's operating results were as follows:

- Total revenue decreased by approximately 29.0% to approximately RMB379.5 million (2019: approximately RMB534.3 million)
- Gross profit decreased by approximately 70.1% to approximately RMB38.7 million (2019: approximately RMB129.5 million)
- Gross profit margin decreased by approximately 14.0% to approximately 10.2% (2019: approximately 24.2%)
- Loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB19.2 million (2019: profit and total comprehensive income of approximately RMB33.9 million)
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: approximately RMB0.035 per ordinary share)

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**379,521**	534,327	900,300	901,328	805,921
(Loss) profit before tax	**(24,935)**	41,764	168,543	147,589	114,586
Income tax credit (expense)	**5,753**	(7,908)	(27,111)	(17,257)	(14,553)
(Loss) profit and total comprehensive (expense) income for the year	**(19,182)**	33,856	141,432	130,332	100,033
(Loss) profit and total comprehensive (expense) income for the year attributable to:					
Owners of the Company	**(19,182)**	33,856	141,432	130,332	100,033
Non-controlling interests	**–**	–	–	–	–
	(19,182)	33,856	141,432	130,332	100,033

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,272,343**	1,337,657	1,495,390	1,235,233	1,337,949
Total liabilities	**(516,343)**	(523,426)	(645,015)	(453,874)	(660,098)
	756,000	814,231	850,375	781,359	677,851
Equity attributable to owners of the Company	**755,849**	814,231	850,375	781,359	677,851
Non-controlling interests	**151**	–	–	–	–
	756,000	814,231	850,375	781,359	677,851

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Group, I am pleased to present to our shareholders the annual results of the Group for the year ended 31 December 2020 (the "**Reporting Period**" or the "**Year**").

BUSINESS REVIEW

The Group is a leading telecommunication manufacturer in the PRC. For the year ended 31 December 2020, the Group recorded a decrease of revenue by 29.0% to approximately RMB379.5 million (2019: approximately RMB534.3 million).

During the year ended 31 December 2020, the gross profit of the Group was approximately RMB38.7 million (2019: approximately RMB129.5 million), representing a reduction of approximately 70.1%. The Company recorded a loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB19.2 million (2019: profit and total comprehensive income of approximately RMB33.9 million). The Company's basic loss per share was approximately RMB0.02 (2019: earnings per share of approximately RMB0.03).

OUTLOOK

Compared with 2019, the Group recorded a significant decrease in revenue and a net loss in 2020. The main reasons attributable to such changes included:

1. The domestic and international economies were hit hard by the sustained Novel Coronavirus ("**COVID-19**") pandemic in 2020. The Group's businesses were being greatly affected, in which the Group witnessed a slowdown in market demand and suffered from a long operation suspension in the upstream and downstream industrial chains. As the production capacity of upstream optical fibre preforms was released, the optical fibre shortage ceased, and the production capacity of optical fibre cables expanded significantly, accompanied with more vigorous competition, which led to the decrease in gross profit margin. Apart from optical fibre, the costs of all other raw materials had increased since the fourth quarter, thus rendering the Group to record a relatively greater loss.

2. The demand for optical fibre and optical fibre cables was recovered in 2020 due to the large-scale 5G construction commenced by the three state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunication Network Operators**"). However, since the production capacity previously expanded by major suppliers in the market was released intensively at a later stage, the previous shortage in optical fibres was changed to a surplus, thus resulting in a stiff competition in the market. In the centralised procurement of ordinary optical fibre cable products carried out by the Major PRC Telecommunication Network Operators in 2020, the average unit price of such products further dropped by about 30%, which indicated that it would still take some time for the industry to complete production capacity optimization and adjustment.

On 25 March 2021, the Ministry of Industry and Information Technology released the "Dual Gigabit" Network Coordinated Development Action Plan (2021–2023), which proposes that by the end of 2021, the gigabit optical fibre network will reach the capacity to cover 200 million households; the ports of 10 gigabit passive optical network (10G-PON) and above will reach the scale of over 5 million; and the number of gigabit broadband subscribers will exceed 10 million. The 5G network will basically cover areas above the county level and some key villages and towns. More than 600,000 5G base stations will be constructed, and more than 20 gigabit cities will be built. By the end of 2023, the gigabit optical fibre network will achieve the capacity to cover 400 million households, and the number of gigabit broadband subscribers will exceed 30 million. The 5G network will basically cover areas above the township level and key administrative villages, and 100 gigabit cities will be built. Currently, the Major PRC Telecommunication Network Operators are at the core of 5G industry development, and operators need to accelerate the progress that has been delayed by COVID-19 in 2021. Therefore, it is expected the Major PRC Telecommunication Network Operators will maintain a high level of capital expenditure and their demands for optical fibre and optical fibre cables will increase, thereby stimulating the prices of optical fibre and optical fibre cables to rebound from the current low levels. In the meantime, the support from national policies will facilitate 5G technology to develop at a faster pace, and it is expected that demands for optical fibre and optical fibre cables will recover in 2021.

The Group will seek further opportunities for industry chain integration and improve the capability of controlling raw material costs, thereby reinforcing the cost control to improve its competitive strengths and profitability.

The Group will further develop diversified businesses that are centered on the telecommunication industry. The "Dual Gigabit" Network Coordinated Development Action Plan (2021–2023) released by the Ministry of Industry and Information Technology encourages enterprises of optical fibre and optical fibre cables, chip components and network equipment to strengthen the technology development and to improve the manufacturing capability and the technological level in the weak links such as 5G chips, high-speed PON chips, high-speed WLAN chips, high-speed optical transceivers and high-performance components. Given the significance of high-speed optical transceivers in the 5G construction and the promising market prospect, the Group invested approximately US$23 million in Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity as well as an enterprise that possesses the complete production chain from chips to optical transceivers, in December 2020. The Group became the only business partner of Source Photonics Group in the optical communication industry. In the future, the Group will further develop opportunities in the optical transceivers field independently or by collaborating with Source Photonics Group.

The outbreak of COVID-19 has not completely receded in 2021. We believe that the impact of COVID-19 on the Group's operations and future prospect will depend on how long COVID-19 will last, the regulatory policies to be implemented, and the relevant protective measures that may affect the business environment where the Group operates its businesses in. The Group will closely monitor the development of COVID-19, continuously assess its impact on the Group and adopt necessary measures to minimise the business risk.

Chairman's Statement

Facing the challenges, the Group will actively participate in the optical fibre cable industry and the new hardware manufacturing segment of the telecommunication industry which cater for the needs of 5G network construction in 2021, in order to improve our competitiveness and increase our market share, and strive for satisfactory returns for our shareholders.

APPRECIATION

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

Yu Jinlai
Chairman

Hong Kong, 30 March 2021

A. FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices. During the year ended 31 December 2020, revenue of the Group amounted to approximately RMB379.5 million, representing a decline of 29.0% from approximately RMB534.3 million for the year ended 31 December 2019. During the Reporting Period, the Group's sales volume has increased by approximately 12% as compared to that of the previous financial year. However, due to an overall decrease in tender prices for optical fibre cables in the industry, the awarded tender prices have plummeted, thereby leading to the decrease in the Group's revenue.

Cost of sales

For the year ended 31 December 2020, cost of sales of the Group amounted to approximately RMB340.8 million, representing a decline of approximately 15.8% from approximately RMB404.8 million for the year ended 31 December 2019.

Gross profit and gross profit margin

Gross profit decreased by approximately 70.1% to approximately RMB38.7 million for the year ended 31 December 2020 from approximately RMB129.5 million for the same period in 2019. During the Reporting Period, the Group's gross profit margin was approximately 10.2% as compared to a gross profit margin of approximately 24.2% for the year ended 31 December 2019. As there was an overall decrease in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have plummeted, and the magnitude of such price drop was greater than the reduction in the costs of raw materials. Therefore, it resulted in a material impact on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

A net gain of approximately RMB20.4 million recorded for the year ended 31 December 2019 has dropped to a net gain of approximately RMB18.0 million for the same period in 2020. The decrease in net gain was mainly attributable to the decrease in interest income from approximately RMB12.6 million for the year ended 31 December 2019 to approximately RMB9.6 million for the Reporting Period.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.3 million for the year ended 31 December 2020 which rose moderately by approximately 3.5% compared to approximately RMB18.7 million for the same period in 2019. The rise in expenses was driven by the increase in the sales volume.

Administrative expenses

The Group's administrative expenses decreased by approximately 4.6% to approximately RMB39.4 million for the year ended 31 December 2020 from approximately RMB41.3 million for the year ended 31 December 2019. The decrease was attributable to reduced trip and accommodation expenses amidst the pandemic.

Research costs

The Group's research costs declined by approximately 24.5% to approximately RMB22.8 million for the year ended 31 December 2020 from approximately RMB30.2 million for the year ended 31 December 2019. The decline was mainly attributable to the completion of the 5G related projects during the Year.

Finance costs

During the year ended 31 December 2020, the Group's finance costs decreased by approximately 52.1% to approximately RMB5.0 million from approximately RMB10.4 million for the same period in 2019. The decrease was in line with the reduction in the average bank borrowings during the Year.

Share of profit (loss) of an associate

During the year ended 31 December 2020, the Group recorded a share of profit of an associate of approximately RMB0.2 million while it recognized a share of loss of approximately RMB11.0 million for the same period in 2019. The aforesaid associate is engaged in the manufacturing and sales of optical fibre. The alignment on the adjustments of the procurement price of optical fibre preforms and the selling prices of the optical fibres has improved the overall profitability.

Income tax credit (expense)

During the year ended 31 December 2020, the Group recorded an income tax credit of approximately RMB5.8 million as compared to an income tax expense of approximately RMB7.9 million incurred for the year ended 31 December 2019. The change was in line with the decrease in the Group's profits.

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

As a result of the foregoing, the Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB19.2 million for the year ended 31 December 2020 as compared to a profit and total comprehensive income of approximately RMB33.9 million generated by the Group for the same period in 2019.

Liquidity, financial and capital resources

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

Cash and loan position

As at 31 December 2020, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB377.5 million (2019: approximately RMB529.0 million), representing a decrease of approximately 28.6% as compared to that as at 31 December 2019.

As at 31 December 2020, the Group has interest-bearing bank borrowings amounted to approximately RMB172.3 million (2019: approximately RMB110.0 million) and loan from a joint venture of RMB28.0 million (2019: nil).

All interest-bearing bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a bank borrowing of approximately RMB72.3 million (2019: nil) which was secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits of the Group), guaranteed by a director of the Company, repayable after one year and denominated in Euro. The Group's bank borrowings of RMB70.0 million (2019: RMB110.0 million) carry fixed interest rates ranging from 3.45% to 4.35% per annum (2019: 4.4% per annum) and bank borrowings of approximately RMB102.3 million (2019: nil) carry variable market interest rates ranging from 1.86% to 4.35% per annum (2019: nil).

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

Charges on the Group's assets

As at 31 December 2020, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totalling approximately RMB152.0 million (2019: approximately RMB55.2 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 31 December 2020, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 68.3% (2019: approximately 64.3%).

Currency risk

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

Interest rate risk

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

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

The Group has concentration of credit risk because approximately 93.9% (2019: approximately 97.9%) of trade receivables as at 31 December 2020 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

Liquidity risk

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

Capital commitments

As at 31 December 2020, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB1.1 million (2019: approximately RMB2.7 million).

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery as it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings and net proceeds from the global offering (the "**Global Offering**") in which the Company's ordinary shares of HK$0.001 each were issued at a price of HK$1.02 each on 12 December 2016. Save as disclosed in the Company's prospectus dated 30 November 2016 (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 2020, the Group had approximately 370 employees (2019: approximately 420). For the year ended 31 December 2020, the Group incurred staff costs of approximately RMB37.4 million (2019: approximately RMB41.3 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2019 and 2020.

Contingent liabilities and litigation

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

B. SUBSCRIPTION OF SHARES, GRANT OF CALL OPTION, ACQUISITION OF SHAREHOLDER'S LOAN OF GOLD IMAGE LIMITED

On 18 September 2020, Century Planet Limited ("**Century Planet**"), Gold Image Limited ("**Gold Image**") and the sole shareholder of Gold Image (the "**Sole Shareholder**") entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which (i) Century Planet conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue 9,999 new ordinary shares at a consideration of US$9,999, representing 99.99% of its total issued share capital as enlarged by the issue of such shares; (ii) the Sole Shareholder agreed to grant a call option to Century Planet at a consideration of US$1, in which Century Planet may exercise at any time during the period of two years after the date of completion of the transactions under the Subscription Agreement to purchase the remaining one issued share of Gold Image held by the Sole Shareholder; and (iii) Century Planet would acquire the shareholder's loan in a sum of US$23,038,052 from the Sole Shareholder at a consideration of US$23,038,052. The total consideration was to be settled in cash. The completion (the "**Completion**") of the transactions contemplated under the Subscription Agreement took place on 31 December 2020 in accordance with the terms and conditions of the Subscription Agreement.

For details of the Subscription Agreement and the Completion, please refer to the Company's announcements dated 18 September 2020 and 31 December 2020.

C. USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 12 December 2016, the Company issued 280,000,000 shares at an offer price of HK$1.02 per share for the purpose of the Global Offering. Upon completion of the Global Offering, the Company raised gross proceeds of approximately HK$285.6 million. The proceeds, after deducting payment for remaining listing expenses, amounted to approximately HK$248.4 million (the "**Net Proceeds**"), which 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.

Management Discussion and Analysis

As at 31 December 2020, approximately HK$183.2 million of the Net Proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong and the PRC. Set out below is a summary of the utilisation of the Net Proceeds:

	%	Original plan allocation of Net Proceeds HK$'000,000	Actual utilised as at 31 December 2020 HK$'000,000	Unutilised as at 31 December 2020 HK$'000,000	Expected timeline for full utilisation of the unutilised proceeds[Note 1]
For constructing the phase II expansion plan of our Jin Tan Factory to expand our production capacity and increase our production efficiency	48.9	121.3	56.1	65.2	In respect of acquisition of land for the phase II of Jin Tan Factory: By 30 June 2021 In respect of construction of the office and production facilities and installation of production facilities and equipment: By 30 September 2022
For upstream development or acquisition of the optical fibre cable production value chain	28.5	70.8	70.8	–	–
For research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment	10.1	25.0	25.0	–	–
For repaying parts of the bank loans drawn down from a financial institution	6.1	15.1	15.1	–	–
For additional working capital and other general corporate purpose in order to improve the liquidity and gearing ratio of our Group	6.5	16.2	16.2	–	–
Total	**100****	**248.4**	**183.2**	**65.2**	**–**

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

Note:

1. The expected timeline for full utilisation of the unutilised proceeds is made based on the best estimation of the Group taking into account, among others, the prevailing and future market conditions and the Group's business developments and needs, and is therefore subject to change.

The Company confirms that the unutilised Net Proceeds will be expected to be used according to the intentions previously disclosed in the Prospectus. In respect of constructing the phase II expansion plan of Jin Tan Factory, due to the limited land pool held by the government authority, the construction of phase II of Jin Tan Factory has been delayed. The Company has been actively discussing with the government authority to explore and acquire suitable land, following which the construction of the office and production facilities can take place. As an interim measure, the Company has already utilised part of the Net Proceeds to purchase the necessary equipment and temporarily installed it in the current production site for satisfying the Group's production plan, and the Company plans to relocate the production equipment to phase II of Jin Tan Factory when the construction is completed.

D. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with relevant 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**").

E. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

F. COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2020, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

* *For identification purpose only*

G. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING REQUIREMENT

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

1. On 27 August 2013, Jiangsu Nanfang Optic Electric Technology Company Limited* (江蘇南方光纖科技有限公司) ("**Nanfang Optic**") and Jiangsu Nanfang Communication Technology Company Limited* (江蘇南方通信科技有限公司) ("**Nanfang Communication**"), an indirect wholly-owned subsidiary of the Company, entered into an optical fibre supply agreement (the "**Optical Fibre Supply Agreement**") in respect of the purchase of optical fibres from Nanfang Optic as raw materials for the Group's production of optical fibre cables for a term of 15 years.

   Nanfang Optic is held as to 47% by Jiangsu Hengtong Optic-Electric Company Limited* (江蘇亨通光電股份有限公司) ("**Jiangsu Hengtong**"), the holding company of Jiangsu Hengtong Light Guide New Materials Company Limited* (江蘇亨通光導新材料有限公司) ("**Hengtong Light Guide**"). Hengtong Light Guide is a connected person of the Company at the subsidiary level (as explained below). As such, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and is also considered as a connected person of the Company at the subsidiary level. Details of the Optical Fibre Supply Agreement were set out in the Company's announcement dated 25 October 2017.

   For the year ended 31 December 2020, the purchase of optical fibres from Nanfang Optic by the Group under the Optical Fibre Supply Agreement totalled approximately RMB125,568,000.

2. On 4 April 2018, Hengtong Light Guide and Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司) ("**Yingke Optical Material**") entered into a lease agreement (the "**Lease Agreement**") in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms from 4 April 2018 to 31 December 2020.

   Yingke Optical Material is a joint venture held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide. Yingke Optical Material is therefore regarded as a subsidiary of the Company for the purpose of the Listing Rules. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, Hengtong Light Guide is considered as a connected person of the Company at the subsidiary level. Details of the Lease Agreement were set out in the Company's announcement dated 4 April 2018.

   For the year ended 31 December 2020, the rent payable by Yingke Optical Material to Hengtong Light Guide under the Lease Agreement amounted to approximately RMB1,544,000.

* *For identification purpose only*

3. On 4 April 2018, Hengtong Light Guide and Yingke Optical Material entered into a framework procurement agreement (the "**Framework Procurement Agreement**") in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide from 4 April 2018 to 31 December 2020.

   As aforementioned, Hengtong Light Guide is a connected person of the Company at the subsidiary level. Details of the Framework Procurement Agreement were set out in the Company's announcement dated 4 April 2018.

   For the year ended 31 December 2020, the purchase from Hengtong Light Guide by Yingke Optical Material under the Framework Procurement Agreement totalled approximately RMB234,419,000.

4. On 4 April 2018, Yingke Optical Material and Nanfang Optic entered into a framework supply agreement (the "**Framework Supply Agreement**") in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic from 4 April 2018 to 31 December 2020.

   As mentioned above, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and is considered as a connected person of the Company at the subsidiary level. Details of the Framework Supply Agreement were set out in the Company's announcement dated 4 April 2018.

   For the year ended 31 December 2020, the sales to Nanfang Optic from Yingke Optical Material under the Framework Supply Agreement totalled approximately RMB97,438,000.

5. On 28 September 2018, Jiangsu Hengtong and Nanfang Communication entered into an agreement in relation to the ongoing mutual sale and purchase of communication products (the "**Relevant Products**"), including optical fibre preforms, optical fibre and optical fibre cables and their raw materials, between Nanfang Communication and its affiliates ("**Nanfang Communication Group**") and Jiangsu Hengtong and its affiliates ("**Jiangsu Hengtong Group**") (the "**Jiangsu Hengtong Framework Procurement and Supply Agreement**") from 28 September 2018 to 31 December 2020.

   As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Jiangsu Hengtong is therefore considered as a connected person of the Company at the subsidiary level. Details of the Jiangsu Hengtong Framework Procurement and Supply Agreement were set out in the Company's announcement dated 28 September 2018.

   For the year ended 31 December 2020, under the Jiangsu Hengtong Framework Procurement and Supply Agreement, (i) the purchase of the Relevant Products by Nanfang Communication Group from Jiangsu Hengtong Group was approximately RMB72,000; and (ii) the sale of Relevant Products by Nanfang Communication Group to Jiangsu Hengtong Group was approximately RMB174,962,000.

* *For identification purpose only*

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

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

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

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

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

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

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

(ii) on normal commercial terms or better; and

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

H. RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are disclosed in note 36 to the consolidated financial statements.

Save as the continuing connected transactions disclosed in the section headed "G. Continuing Connected Transactions Subject to Reporting Requirement" above, all other connected transactions disclosed in note 36 to the consolidated financial statements are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A.76(1) or 14A.95 of the Listing Rules.

The Company has complied with the requirements under Chapter 14A of the Listing Rules in respect of the connected transactions carried out by the Group as disclosed in this report.

I. SIGNIFICANT INVESTMENTS

As at 31 December 2020, the Group held the following significant investments:

1. Nanfang Communication, holds 49% of the shareholding in Nanfang Optic, and made a total investment of approximately RMB73.5 million up to 31 December 2020. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 31 December 2020 as this is a private company. The investment is intended to be held for a long term. During the Year, the Group (i) shared an associated profit of approximately RMB0.2 million (net of dividends received); and (ii) received a dividend of approximately RMB14.7 million in respect of its investment in Nanfang Optic. Please refer to note 16 to the consolidated financial statements for further details.

2. Nanfang Communication also holds 51% of the shareholding in Yingke Optical Material, and made a total investment of approximately RMB76.5 million up to 31 December 2020. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 31 December 2020 as this is a private company. The investment is intended to be held for a long term. During the year ended 31 December 2020, the Group (i) shared a profit of approximately RMB5.5 million; and (ii) received a dividend of approximately RMB7.9 million in respect of its investment in Yingke Optical Material. Please refer to note 17 to the consolidated financial statements for further details.

3. Pacific Smart, an indirectly non-wholly owned subsidiary of the Company, owned 8,095,527 class A preferred shares of Venus Pearl SPV2 Co Limited, representing approximately 4.59% of its total issued share capital, with a total investment of approximately US$23,048,052 contributed by the Group up to 31 December 2020. Venus Pearl SPV2 Co Limited is a company incorporated in the Cayman Islands which is principally engaged in investment holding. The fair value of the investment was approximately RMB151,599,000 as at 31 December 2020, representing approximately 11.9% of the total assets of the Group. During the Year, the Group had not received any dividend or recorded any investment gain/loss.

   The investment is intended to be a long term investment in view of the positive business synergies to be generated in the long run between the Company and Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity that is wholly owned by Venus Pearl SPV2 Co Limited. Please refer to note 18 to the consolidated financial statements for further details.

Save as aforesaid, the Company did not hold any other significant investments during the year ended 31 December 2020.

* *For identification purpose only*

Directors' and Senior Management's Profile

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Shi Ming (石明先生), aged 49, 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 Nanfang Communication in June 2007. Mr. Shi is mainly responsible for overseeing our overall management and operations, investment strategies and business development. 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 is also a director of each of Century Planet, Nanfang Communication Group Limited ("**Nanfang Hong Kong**"), MacroSmart Investment Limited* (敏博投資有限公司) ("**MacroSmart**"), Jiangsu Yingke Communication Technology Company Limited* (江蘇盈科通信科技有限公司) ("**Yingke**"), Jiangsu Nanfang Information Technology Company Limited* (江蘇南方信息技術有限公司) ("**Nanfang IT**"), Nanfang Optic, Gold Image and Pacific Smart.

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

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

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

Mr. Shi is deemed to be interested in the 840,000,000 Shares held by Pacific Mind Development Limited ("**Pacific Mind**") under the Securities Future Ordinance (the "**SFO**") as a beneficiary of a discretionary trust. For details, please refer to page 27 of this report.

Ms. Yu Rumin (於茹敏女士), aged 44, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. Ms. Yu joined our Group as a manager in the enamelled wire business development department of Nanfang Communication in May 2001 and was appointed as a vice general manager of Nanfang Communication in October 2011. Ms. Yu is primarily responsible for overseeing business development, financial control and human resources management. Ms. Yu is also a director of each of Century Planet, Nanfang Hong Kong, Yingke, Nanfang Optic, Gold Image and Pacific Smart.

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 (註冊納稅籌劃師). 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.

* *For identification purpose only*

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

Ms. Yu is a controlling shareholder of the Company. As founder of a discretionary trust, she is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of the SFO. For details, please refer to page 27 of this report.

Ms. Yu Ruping (於茹萍女士), aged 45, was appointed as our Director on 10 May 2016 and was designated as our executive Director on 22 June 2016. Ms. Yu Ruping ("**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, MacroSmart, Gold Image and Pacific Smart. She is also a supervisor of Nanfang Communication, Nanfang Optic, Nanfang IT, Yingke and Yingke Optical Material.

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

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

Ms. Yu RP is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since she is a beneficiary of a discretionary trust. For details, please refer to page 27 of this report.

NON-EXECUTIVE DIRECTOR

Mr. Yu Jinlai (於金來先生), aged 72, was appointed as our Director on 10 May 2016 and was designated as our non-executive Director on 22 June 2016. He is the chairman of the Board. Mr. Yu has been acting as the legal representative of Nanfang Communication since July 1992 when Nanfang Communication was first established. He has been a director of Nanfang Communication since 1998. He is mainly responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Yu is also a director of MacroSmart and Yingke.

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

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

Mr. Yu is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since he is a beneficiary of a discretionary trust. For details, please refer to page 27 of this report.

Directors' and Senior Management's Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Wing Kuen (胡永權先生), aged 64, was appointed as our independent non-executive Director on 24 November 2016. Mr. Wu was awarded a Bronze Bauhinia Star from the Hong Kong Government in July 2012 in recognition for his meritorious public and community services. Mr. Wu is currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund. He is a member of the Appeal Tribunal Panel of the Planning and Lands Branch of the Development Bureau of the Hong Kong Government.

Mr Wu is currently the independent non-executive director of EFT Solutions Holdings Limited (stock code: 8062), Palinda Group Holdings Limited (formerly known as Food Idea Holdings Limited) (stock code: 8179), Million Cities Holdings Limited (stock code: 2892) and HongGuang Lighting Holdings Company Limited (stock code: 6908).

Mr. Chan Kai Wing (陳繼榮先生), aged 60, was appointed as our independent non-executive Director on 24 November 2016. Mr. Chan has over 30 years of professional experience in auditing and accounting, corporate financial management and financial advisory services. Mr. Chan obtained a bachelor degree of economics from Macquarie University, Australia in April 1986. He is a fellow member of CPA Australia.

Mr. Chan is currently the independent non-executive director of China Conch Venture Holdings Limited (stock code: 586). In addition, Mr. Chan formerly served as an independent non-executive director of China Assurance Finance Group Limited (which was delisted from the Stock Exchange in March 2021 with stock code 8090). Mr. Chan also served as an independent non-executive director of Sino Golf Holdings Limited (stock code: 361) from August 2015 to November 2018 and Bisu Technology Group International Limited (stock code: 1372) from July 2015 to February 2019.

Mr. Lam Chi Keung (林芝強先生), aged 50, was appointed as our independent non-executive Director on 24 November 2016. Mr. Lam has over 24 years of professional experience in accounting and financial management and held various finance/accounting-related positions in international accounting firms and companies. Mr. Lam obtained a bachelor degree of science in accounting from Brigham Young University-Hawaii in December 1996. He also obtained a master degree of science in e-commerce from the Chinese University of Hong Kong in December 2002. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and a member of the American Institute of Certified Public Accountants.

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

SENIOR MANAGEMENT'S PROFILE

Mr. Huang Zhengou (黃正歐先生), aged 59, was appointed as the deputy general manager and head of production management centre of Nanfang Communication in 2016. He joined Nanfang Communication in November 2012 as a technical supervisor (技術總監) and was appointed as general manager of the manufacturing and operation centre of Nanfang Communication in December 2017. Mr. Huang is mainly responsible for the overall manufacturing and operation management and research and development of new products of the Group. Mr. Huang graduated from Yangzhou Industry Technical College (揚州工業專科學校) in December 1981 with major in machinery manufacturing. Mr. Huang completed machinery design and manufacturing courses at Mechanical Engineer Further Education University (機械工程師進修大學) in October 1989. Mr. Huang is a qualified senior engineer (高級工程師).

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

Mr. Zhu Xiaolei (朱曉雷先生), aged 52, was appointed as our general manager in sales in March 2016. Mr. Zhu joined the Group as a sales personnel in May 1997. Mr. Zhu is mainly responsible for supervising the overall sales strategies and bidding process of the Group. Mr. Zhu completed a three-year professional study in economic management from Cadre Correspondence School of CPC Jiangsu Provincial Party School (中共江蘇省委黨校幹部函授學院) in July 2008.

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

Ms. Dong Chunlan (董春蘭女士), aged 49, 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 45, was appointed as the company secretary and finance manager in June 2016. She is responsible for financial reporting and compliance of the Group. Ms. Lo graduated with a bachelor degree in business administration from the Hong Kong University of Science and Technology in November 1998. She is a member of the HKICPA and is a Certified Financial Planner.

Ms. Lo has over 20 years of experience in the accounting, tax and finance industry. Between August 1998 and October 2006, Ms. Lo worked in PricewaterhouseCoopers Limited in Hong Kong, specialising in tax services. 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, between April 2012 and July 2015.

Report of the Directors

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in manufacturing and sales of optical fibre cables and related devices in the PRC. Details of the principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on pages 50 to 126 of this report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 to shareholders of the Company.

BUSINESS REVIEW

Details of which are set out in the paragraph headed "Chairman's Statement" on page 6 and under the section headed "Management Discussion and Analysis", which form part of this report of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's five largest suppliers contributed approximately 71.8% of the Group's total purchase. The Group held 49% equity interest in Nanfang Optic, being the largest supplier of the Group, has contributed approximately 42.4% 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 56.0% of the total sales. All of the Group's revenue were derived from its top five customers. Save as disclosed above, none of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately RMB220,658,000. Please refer to note 39 to the consolidated financial statements for more details.

DIRECTORS

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

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

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

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

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Each of the non-executive Director and independent non-executive Directors is entitled to a remuneration pursuant to their respective letter of appointment, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

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

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

Directors' interest in contracts

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

Management Contracts

No contracts, other than a contract of service with any executive Director or any person engaged under the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares or underlying shares held (1)	Approximate % of shareholding
Ms. Yu Rumin (2)	Founder of a discretionary trust	840,000,000 (L)	75
Mr. Yu Jinlai (3)	Beneficiary of a discretionary trust	840,000,000 (L)	75
Ms. Yu Ruping (3)	Beneficiary of a discretionary trust	840,000,000 (L)	75
Mr. Shi Ming (3)	Beneficiary of a discretionary trust	840,000,000 (L)	75

Notes:

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

(2) Pacific Mind owned 840,000,000 Shares, representing 75% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee, holding the entire issued share capital of Pacific Mind for UBS TC (Jersey) Limited ("**Trustee**"). The Trustee is a trustee of a discretionary trust ("**Family Trust**") set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries. Ms. Yu Rumin as founder of the Family Trust is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of Part XV of the SFO.

(3) The Shares were held by Pacific Mind in the capacity of a legal beneficial owner. Since each of Mr. Yu Jinlai, Ms. Yu Ruping and Mr. Shi Ming is a beneficiary of the family trust, each of Mr. Yu Jinlai, Ms. Yu Ruping and Mr. Shi Ming was deemed to be interested in the shares held by Pacific Mind under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme for the year ended 31 December 2020 and there was no outstanding share option as at 1 January 2020 and 31 December 2020.

No share-based payment expense was recognised for the year ended 31 December 2020 in relation to share options granted by the Company.

As the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme is 112,000,000, which represented 10% of the Company's share in issue as at the date of this report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Directors or chief executive of the Company, as at 31 December 2020, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Interests in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares or underlying shares held [1]	Approximate % of shareholding [2]
Pacific Mind Development Limited [3]	Beneficial owner	840,000,000 (L)	75
UBS TC (Jersey) Limited [3]	Trustee	840,000,000 (L)	75
UBS Nominee Limited [3]	Interested in controlled corporation	840,000,000 (L)	75
Ms. Zhu Qinying [4]	Interest of spouse	840,000,000 (L)	75
Mr. Yu Jianguang [5]	Interest of spouse	840,000,000 (L)	75
Citigroup Inc. [6]	Person having a security interest in shares	57,479,989 (L)	5.13
	Interest in controlled corporation	11 (L) 11 (S)	0.00 0.00
ICBC International Asset Management Limited	Investment manager	56,480,000 (L)	5.04

Notes:

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

(2) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2020.

(3) Pacific Mind owned 840,000,000 Shares, representing 75% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee holding the entire issued share capital of Pacific Mind for the Trustee in respect of the Family Trust. The Trustee is a trustee of the Family Trust set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries.

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

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

(6) According to the disclosure of interests form filed by Citigroup Inc. on 21 December 2020, Citigroup Inc., through various subsidiaries, had an interest in the Shares, of which (i) 57,479,989 Shares (long position) were held in the capacity as person having a security interest in shares; (ii) 11 Shares (long position) were held in the capacity as interest in controlled corporation; and (iii) 11 Shares (short position) were held in the capacity as interest in controlled corporation.

Save as disclosed above, as at 31 December 2020, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTIVE RIGHTS

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

Report of the Directors

PERMITTED INDEMNITY PROVISION

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.

DONATION

During the year ended 31 December 2020, the Group made charitable and other donations amounting to RMB745,300 (2019: RMB794,200).

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, after the Reporting Period and up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS

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 22 June 2021 (Tuesday) to 25 June 2021 (Friday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 21 June 2021 (Monday).

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

AUDITOR

A resolution will be proposed at the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yu Jinlai
Chairman

30 March 2021, Hong Kong

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2020. 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**") as its own code of conduct regarding securities transactions by the Directors. The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the year ended 31 December 2020 and up to the date of this report.

PUBLICATION OF THE ANNUAL REPORT

The Company's 2020 annual report will be despatched to the Company's shareholders on or before 29 April 2021 and will be available at the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

ANNUAL GENERAL MEETING

The AGM will be held on 25 June 2021 (Friday) 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

Corporate Governance Report

Biographical details (including age, gender, length of service and the relationships between the Board members) of the Board members are set out on pages 20 to 22 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the Code Provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The roles of the chairman and the chief executive officer of the Company are separated and exercised by Mr. Yu Jinlai and Mr. Shi Ming respectively.

Mr. Yu Jinlai serves as the chairman of the Company and is responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Shi Ming serves as the chief executive officer of the Company and is responsible for overseeing the Group's overall management and operations, investment strategies and business development.

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 and with Rule 3.10A to have such number of independent non-executive Directors representing at least one-third of the Board, 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 of independence 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. Code Provision A.4.2 of the CG Code 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, Ms. Yu Rumin, Ms. Yu Ruping and Mr. Chan Kai Wing shall retire from office, and, being eligible, offer themselves for re-election at the forthcoming 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).

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for, amongst other things, developing and reviewing the policies and practices on corporate governance of the Group and monitoring the compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Group's compliance with the CG Code and disclosure in the annual report.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2020 to the Company.

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

The individual training record of each Director received for the year ended 31 December 2020 is summarized below:

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

Corporate Governance Report

BOARD AND GENERAL MEETINGS

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.

During the year ended 31 December 2020, the Company held four Board meetings and one general meeting. The attendance record of each Director at the Board meetings and the annual general meeting held in 2020 has been set out below.

	Attendance/Number of	
Name of Directors	**Board meeting**	**Annual general meeting held in 2020**
Chairman and non-executive Director		
Mr. Yu Jinlai	4/4	✔
Executive Directors		
Mr. Shi Ming *(Chief executive officer)*	4/4	✔
Ms. Yu Rumin	4/4	✔
Ms. Yu Ruping	4/4	✔
Independent non-executive Directors		
Mr. Wu Wing Kuen	4/4	✔
Mr. Lam Chi Keung	4/4	✔
Mr. Chan Kai Wing	4/4	✔

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

During the year ended 31 December 2020, the Audit Committee held two meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and assess significant issues arising from the work conducted.

In the meetings conducted during the Year, the Audit Committee, amongst others, (i) reviewed the Group's interim and annual financial statements and reports; (ii) reviewed with the external auditor the accounting principles and practices adopted by the Group; and (iii) discussed with the Group's management and reviewed the effectiveness of the risk management and internal control systems and internal audit function of the Group.

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

REMUNERATION COMMITTEE

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

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

During the year ended 31 December 2020, the Remuneration Committee held one meeting for reviewing the remuneration package of the Directors of the Company and approving the remuneration proposals of senior management.

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

NOMINATION COMMITTEE

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

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

During the year ended 31 December 2020, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors and the retirement and re-election of Directors. The Committee held one meeting during the Year and the attendance records of the members at the meeting are set out below:

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

Nomination Policy

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

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

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

1. identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;
2. evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
3. reviewing the profiles of the shortlisted candidates and interview them; and
4. making recommendations to the Board on the selected candidates.

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

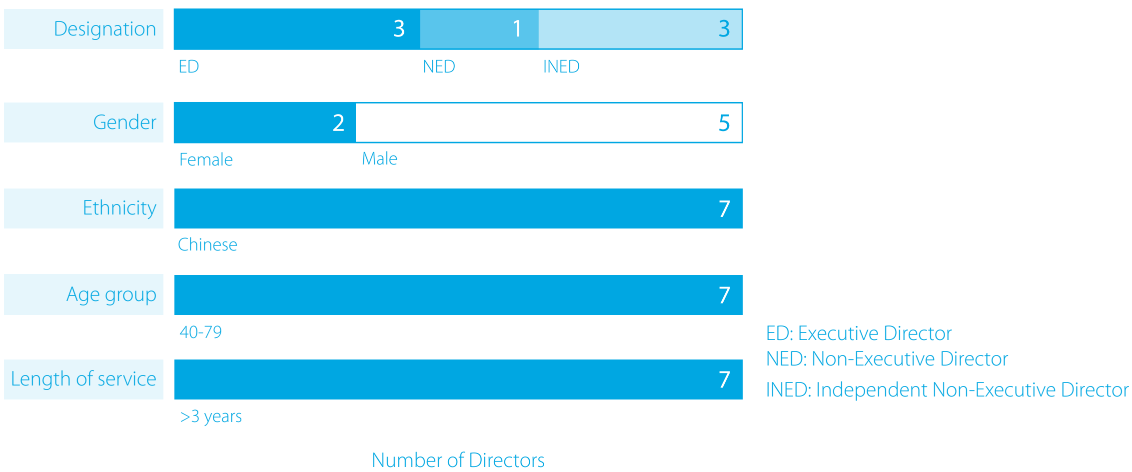
Board Diversity Policy

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

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

As at 31 December 2020, the Board's composition under major diversity perspectives was summarised as follows:

Board Diversity



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 2020 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to the Company's external auditor in respect of audit and non-audit services for the year ended 31 December 2020 are as follows:

Nature of services	**Amount** (RMB'000)
Audit services	800
Other assurance services	0
Non-assurance services	0

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

The remuneration of the members of senior management by bands in 2020 is set out below:

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 50 to 126 of this report. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" on pages 44 to 49 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.

The risk management and internal control systems of the Group aim to minimize the risks rather than eliminate the risk of failure entirely. Furthermore, the risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a risk management and internal control system in place which covers a number of in-house procedures and policies including, amongst others, financial, operational and compliance controls, handling and dissemination of inside information and risk management functions. The management, supported by operation units, are responsible for formulating, implementing and monitoring sound risk management and internal control systems in order to identify, evaluate and manage significant risk. They will report to the Board and the Audit Committee the results of their risk assessments, as well as the assessment on the effectiveness of risk management and internal control systems in order to resolve material internal control defects. Any material internal control defects identified are timely communicated and evaluated, and corrective measures will be implemented by management after discussion with the Board and external consultants (if necessary). Implementation will be closely monitored by management to ensure that the relevant internal control defects are properly resolved.

Corporate Governance Report

The Board, at least annually, reviews the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, and reviews the effectiveness of the risk management and internal control systems of the Group, including financial, operational and compliance controls. The review process comprises, amongst others, (i) regular meetings with management and operation units, legal personnel, internal audit personnel, auditors and external consultants (where appropriate); (ii) reviewing relevant reports and information of key performance indicators; and (iii) discussing the significant risks with the management of the Company.

The Group has adopted appropriate measures for handling and dissemination of inside information, including relevant control processes, to ensure that the confidentiality of inside information is maintained until the disclosure of such information is approved and its dissemination is made in accordance with the Listing Rules.

During the year ended 31 December 2020 and up to the date of this report, the Board, through the Audit Committee meetings which were held twice during the Year, conducted a review of the effectiveness of the internal control and risk management systems of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers the Group's risk management and internal control is adequate and effective.

COMPANY SECRETARY

During the year ended 31 December 2020, Ms. Lo Moon Fong, the company secretary of the Company, 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.

Putting forward proposals at Shareholders' meetings

Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting 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 at the following address for the attention of the company secretary:

Unit 903, 9/F., Capital Centre
151 Gloucester Road
Wan Chai, Hong Kong
Attention: Company Secretary

DIVIDEND POLICY

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

INVESTOR RELATIONS

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, the Company has not made any changes to its Articles.

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Nanfang Communication Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 50 to 126, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRS Standards**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment and right-of-use assets	
We identified impairment assessment of the Group's property, plant and equipment and right-of-use assets with carrying amounts of RMB97.2 million and RMB30.2 million, respectively, as at 31 December 2020 as a key audit matter due to the significance of their carrying amounts on the Group's consolidated statement of financial position and the significant management judgement and estimation associated with the impairment assessment. The management of the Group considers an impairment indicator exists for the Group's property, plant and equipment and right-of-use assets in respect of the manufacturing and sales of optical fibre cables and related devices since the Group incurred loss for the year ended 31 December 2020. The management conducted impairment assessment on the recoverable amount of the cash-generating unit to which these property, plant and equipment and right-of-use assets belong. The recoverable amount of the aforesaid cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group with certain key assumptions, including estimated selling prices, sales volume and major material costs, and discount rate. During the year ended 31 December 2020, no impairment losses in respect of property, plant and equipment and right-of-use assets were recognised. Details of the impairment assessment are set out in notes 4 and 14 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of the Group's property, plant and equipment and right-of-use assets included: • Understanding the Group's impairment assessment process, including the impairment assessment model adopted and assumptions used; • Evaluating the key assumptions used in the future cash flow projections, including estimated selling prices, sales volume and major material costs, and discount rate; • Obtaining the present value of the estimated future cash flows for value in use calculation; • Engaging our valuation specialist to analyse the reasonableness of the discount rate adopted by the management; and • Considering whether disclosures in the consolidated financial statements are adequate and appropriate.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified impairment assessment of the Group's trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period. As at 31 December 2020, the Group's net trade receivables amounting to approximately RMB364.4 million, which represented approximately 28.6% of total assets of the Group. As disclosed in note 34 to the consolidated financial statements, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of lifetime ECL of trade receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. As disclosed in note 34 to the consolidated financial statements, the Group recognised an additional amount of RMB0.6 million of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2020 amounted to approximately RMB6.4 million.	Our procedures in relation to impairment assessment of the Group's trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management of the Group for impairment assessment, including trade receivables ageing analysis as at 31 December 2020, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables of the Group as at 31 December 2020, including their identification of credit-impaired trade receivables, and the basis of estimated loss rates applied in each debtor in the impairment assessment (with reference to historical default rates and forward-looking information); and • Evaluating the disclosures regarding the impairment assessment of the Group's trade receivables in notes 4, 20 and 34 to the consolidated financial statements.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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.

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

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, actions taken to eliminate threats or safeguards applied.

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
30 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
		Year ended 31 December	
Revenue	*5*	**379,521**	534,327
Cost of sales		**(340,793)**	(404,781)
Gross profit		**38,728**	129,546
Other income, gains, expenses and losses, net	*7*	**17,996**	20,376
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	*34*	**(799)**	(1,029)
Selling and distribution expenses		**(19,327)**	(18,670)
Administrative expenses		**(39,439)**	(41,342)
Research costs		**(22,820)**	(30,236)
Finance costs	*8*	**(4,993)**	(10,421)
Share of profit (loss) of an associate		**181**	(11,014)
Share of profit of a joint venture		**5,538**	4,554
(Loss) profit before tax	*10*	**(24,935)**	41,764
Income tax credit (expense)	*9*	**5,753**	(7,908)
(Loss) profit and total comprehensive (expense) income for the year		**(19,182)**	33,856
(Loss) earnings per share	*12*		
– Basic		**RMB(0.02)**	RMB0.03

Consolidated Statement of Financial Position

As at 31 December 2020

		At 31 December	
		2020	2019
	Notes	**RMB'000**	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**97,167**	107,995
Right-of-use assets	*15*	**30,159**	30,054
Interest in an associate	*16*	**88,470**	101,614
Interest in a joint venture	*17*	**80,045**	82,376
Financial assets at fair value through profit or loss ("**FVTPL**")	*18*	**151,599**	–
Prepayments for acquiring property, plant and equipment and prepaid expenses	*21*	**701**	2,173
Restricted bank deposits and balances	*22*	**1,142**	–
Bank deposits with original maturity more than three months	*22*	**102,600**	98,428
Deferred tax assets	*29*	**11,836**	4,265
		563,719	426,905
CURRENT ASSETS			
Inventories	*19*	**25,630**	45,024
Trade and bills receivables	*20*	**391,430**	405,176
Prepayments, deposits and other receivables	*21*	**14,838**	29,975
Prepaid tax		**2,944**	–
Restricted bank deposits and balances	*22*	**66,533**	67,200
Bank deposits with original maturity more than three months	*22*	**–**	44,680
Bank deposits, bank balances and cash	*22*	**207,249**	318,697
		708,624	910,752
CURRENT LIABILITIES			
Trade and bills payables	*24*	**215,877**	286,179
Other payables	*25*	**50,896**	68,975
Loan from a joint venture	*26*	**28,000**	–
Contract liabilities	*27*	**400**	388
Lease liabilities	*28*	**849**	824
Bank borrowings	*23*	**172,276**	110,000
Tax liabilities		**27,332**	31,357
		495,630	497,723
NET CURRENT ASSETS		**212,994**	413,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**776,713**	839,934

Consolidated Statement of Financial Position (Continued)

As at 31 December 2020

	Notes	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**997**	997
Reserves		**754,852**	813,234
Equity attributable to owners of the Company		**755,849**	814,231
Non-controlling interest		**151**	–
		756,000	814,231
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	**4,254**	9,125
Deferred income – government grants	30	**16,315**	15,585
Lease liabilities	28	**144**	993
		20,713	25,703
		776,713	839,934

The financial statements on pages 50 to 126 were approved and authorised for issue by the Board of Directors on 30 March 2021 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 2020

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserve	Surplus reserve	Retained profits	Sub-total	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000 *(Note (b))*	RMB'000 *(Note (a))*	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	997	214,255	113,295	62,426	459,402	850,375	–	850,375
Profit and total comprehensive income for the year	–	–	–	–	33,856	33,856	–	33,856
Appropriation for the year	–	–	–	4,356	(4,356)	–	–	–
Dividend paid *(Note 13)*	–	–	–	–	(70,000)	(70,000)	–	(70,000)
At 31 December 2019	**997**	**214,255**	**113,295**	**66,782**	**418,902**	**814,231**	**–**	**814,231**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(19,182)**	**(19,182)**	**–**	**(19,182)**
Appropriation for the year	**–**	**–**	**–**	**825**	**(825)**	**–**	**–**	**–**
Acquisition of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**151**	**151**
Dividend paid *(Note 13)*	**–**	**–**	**–**	**–**	**(39,200)**	**(39,200)**	**–**	**(39,200)**
At 31 December 2020	**997**	**214,255**	**113,295**	**67,607**	**359,695**	**755,849**	**151**	**756,000**

Notes:

(a) As stipulated by the relevant laws and regulations, the Company's subsidiaries in The People's Republic of China (the "**PRC**") are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax of the financial statements of each subsidiary while the amounts and allocation basis are decided by its board of directors annually, until the reserve balance reaches 50% of its registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these subsidiaries, provided that such fund is maintained at a minimum of 25% of their registered capital.

(b) Pursuant to deeds dated 29 September 2016, shareholders of the Company's ultimate holding company agreed to waive and release all repayment obligations in respect of the amounts of United States Dollars ("**US$**") 500,000 and Hong Kong Dollars ("**HK$**") 128,200,000 (equivalent to Renminbi ("**RMB**") 113,295,000 in aggregate) advanced by them to Century Planet Limited ("**Century Planet**"), the Company's direct wholly owned subsidiary, for paying up the registered capital of its indirect wholly owned subsidiary, MacroSmart Investment Limited ("**MacroSmart**").

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(24,935)**	41,764
Adjustments for:		
Interest income	**(9,594)**	(12,565)
Depreciation of property, plant and equipment	**3,233**	2,896
Depreciation of right-of-use assets	**1,432**	1,198
Loss on disposal of property, plant and equipment	**1**	53
Government grants recognised	**(423)**	(233)
Foreign exchange losses (gains), net	**190**	(937)
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	**799**	1,029
Finance costs	**4,993**	10,421
Share of (profit) loss of an associate	**(181)**	11,014
Share of profit of a joint venture	**(5,538)**	(4,554)
Operating cash flows before movements in working capital	**(30,023)**	50,086
Decrease in inventories	**30,495**	22,298
Decrease in trade, bills and other receivables, deposits and prepayments	**10,752**	149,434
Decrease in trade, bills and other payables	**(80,197)**	(35,151)
Increase in contract liabilities	**12**	369
Cash (used in) generated from operations	**(68,961)**	187,036
Income tax paid	**(13,658)**	(9,819)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(82,619)**	177,217
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and right-of-use assets	**(13,814)**	(7,475)
Proceeds from disposal of property, plant and equipment	**4**	–
Cash outflow from acquisition of a subsidiary	**(151,448)**	–
Dividend received from an associate	**14,700**	–
Dividend received from a joint venture	**7,869**	–
Placement of bank deposits with original maturity more than three months	**–**	(134,500)
Withdrawal of bank deposits with original maturity more than three months	**44,680**	–
Placement of restricted bank deposits and balances	**(67,675)**	(200,569)
Withdrawal of restricted bank deposits and balances	**67,200**	207,020
Interest received	**4,422**	6,959
Government grants received	**1,153**	4,734
Repayment from Pacific Smart Development Limited ("**Pacific Smart**")	**19,249**	36,630
Settlement of loans receivable	**194,000**	–
Loans advanced	**(194,000)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(73,660)**	(87,201)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB’000	RMB’000
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**202,056**	250,000
Repayments of bank borrowings	**(140,000)**	(340,000)
Loan from a joint venture	**28,000**	–
Repayments to the ultimate holding company	**(238)**	(3,574)
Payments of interest expense on bank borrowings	**(4,950)**	(10,366)
Dividend paid	**(39,200)**	(70,000)
Interest paid on lease liabilities	**(43)**	(55)
Payments of lease liabilities	**(824)**	(668)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**44,801**	(174,663)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(111,478)**	(84,647)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**318,697**	403,298
Effect of exchange rate changes on the balances of cash held in foreign currencies	**30**	46
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by:		
Bank deposits, bank balances and cash	**207,249**	318,697

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

Nanfang Communication Holdings Limited (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 and optical distribution network devices.

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

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

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards")

Amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRS Standards issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRS Standards in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (CONTINUED)

Amendments to IFRS Standards that are mandatorily effective for the current year (continued)

Impacts on application of Amendments to IAS 1 and IAS 8 *Definition of Material*

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to IFRS Standards in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to IFRS Standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (CONTINUED)

New and amendments to IFRS Standards in issue but not yet effective (continued)

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in IFRS 3 *Business Combinations* ("**IFRS 3**") so that it refers to the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010);

- add a requirement that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- Modification of financial assets, financial liabilities and lease liabilities. A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16 *Leases* ("**IFRS 16**");

- Hedge accounting requirements. Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- Disclosures. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS Standards") (CONTINUED)

New and amendments to IFRS Standards in issue but not yet effective (continued)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* (continued)

As at 31 December 2020, the Group has a London Interbank Offered Rate / RMB Loan Prime Rate which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for the loan change resulting from the reform on application of the amendments.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS Standards issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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 accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets* ("**IAS 36**").

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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 Group gains control until the date when the Group ceases to control the subsidiary.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Investments in an associate and a joint venture

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Investments in an associate and a joint venture (continued)

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Investments in an associate and a joint venture (continued)

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

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

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

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

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Property, plant and equipment

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

Construction in progress, which represents assets under construction for production, supply or administrative purposes, is carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

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

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

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "(loss) profit before tax" because 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation (continued)

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

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of building that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

<u>Right-of-use assets</u>

The cost of right-of-use asset includes:

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

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

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

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

<u>Refundable rental deposits</u>

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

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

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

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

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

Lease modifications

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Inventories

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

Employee benefits

Retirement benefit costs

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.

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

Short-term employee benefits

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Government grants

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

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

Government grants related to income 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. Such grants are presented under "other income, gains, expenses and losses, net".

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

The effective interest method is a method of calculating the amortised cost of a financial asset and a financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Amortised cost and interest income

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

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("**FVTOCI**") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at amortised cost

Financial liabilities (including trade, bills and other payables, advance from ultimate holding company, loan from a joint venture, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Revenue from contracts with customers

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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

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

Revenue from the sale of electricity is recognised based on the meter reading of watts of electricity transmitted at tariff rate agreed in the relevant contracts.

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.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 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 activities (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 (if any), 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.

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

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including estimated selling prices, sales volume and major material costs used in the cash flow projection and discount rate. 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 assets belong. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, impairment loss may arise.

As at 31 December 2020, the Group had property, plant and equipment and right-of-use assets with carrying amounts amounting to RMB97,167,000 (2019: RMB107,995,000) (note 14) and RMB30,159,000 (2019: RMB30,054,000) (note 15), respectively, which are belonged to a cash-generating unit of the Group for the manufacturing and sales of optical fibre cables and related devices.

During the year ended 31 December 2020, no impairment loss (2019: nil) has been recognised in profit or loss in respect of the property, plant and equipment and right-of-use assets.

Estimated impairment of trade, bills and other receivables

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

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

As at 31 December 2020, the Group's net carrying amount of trade receivables was RMB364,412,000 (net of allowance for credit losses of RMB6,446,000) (2019: RMB385,210,000 (net of allowance for credit losses of RMB5,857,000)).

As at 31 December 2020, the Group's carrying amount of bills receivables was RMB27,018,000 (2019: RMB19,966,000). The ECL for the Group's bills receivables is insignificant.

As at 31 December 2020, the Group's net carrying amount of other receivables was RMB7,107,000 (net of allowance for credit losses of RMB619,000) (2019: RMB25,618,000 (net of allowance for credit losses of RMB409,000)).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful lives of property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses in the consolidated statement of financial position. The estimation of their useful lives is the key element for the annual depreciation expense. Management estimates useful lives of property, plant and equipment (other than construction in progress) based on their experience and historical production statistics. Should the useful lives of the Group's property, plant and equipment (other than construction in progress) be deviated from the estimation, higher/lower depreciation expense would lead to a decrease/increase the Group's profit respectively.

As at 31 December 2020, the Group's carrying amount of property, plant and equipment is RMB97,167,000 (2019: RMB107,995,000).

Recognition of deferred tax assets

As at 31 December 2020, deferred tax assets of RMB11,836,000 (2019: RMB4,265,000) was recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the periods in which such a situation takes place.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Optical fibre cables	**375,757**	502,594
Optical distribution network devices	**3,764**	31,733
	379,521	534,327

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

5. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

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

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

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

6. SEGMENT INFORMATION

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

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

Geographical information

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

Major customers

Revenue from customers of the corresponding years contributing over 10% of total sales of the Group are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Customer A	**147,336**	238,100
Customer B	**212,624**	282,771

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Bank interest income	**7,684**	9,195
Other interest income	**1,910**	3,370
Foreign exchange (losses) gains, net	**(725)**	974
Sale of electricity and gain on sales of other materials	**3,176**	1,328
Government grants recognised *(Note)*	**5,489**	5,523
Loss on disposal of property, plant and equipment	**(1)**	(53)
Others	**463**	39
	17,996	20,376

Note: During the current year, the government grants mainly included subsidies in relation to various taxes paid and research and other expenses incurred in prior years. In addition, the Group also recognised government grants of approximately RMB188,000 in respect of Covid-19-related subsidy relating to Employment Support Scheme provided by the Hong Kong government.

The government grants recognised included the release of deferred income of RMB423,000 (2019: RMB233,000) during the year (Note 30).

8. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest on bank borrowings	**4,950**	10,366
Interest on lease liabilities	**43**	55
	4,993	10,421

9. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
PRC Enterprise Income Tax ("**EIT**")	**(3,745)**	(5,299)
Withholding tax	**(2,944)**	–
Deferred tax *(Note 29)*	**12,442**	(2,609)
	5,753	(7,908)

No provision for income taxes of the Company and its certain subsidiaries was made as they did not earn assessable income during the year (2019: nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, Jiangsu Nanfang Communication Technology Company Limited ("**Nanfang Communication**") and Jiangsu Yingke Communication Technology Company Limited ("**Yingke**"), subsidiaries of the Company, are recognised as "High and New Technology Enterprise" during the year. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the year (2019: 15%).

9. INCOME TAX CREDIT (EXPENSE) (CONTINUED)

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) profit before tax	**(24,935)**	41,764
Tax at applicable tax rate at 15% in the PRC during the year *(Note1)*	**(3,740)**	6,265
(Reversal) provision of withholding tax on distributable profits	**(1,751)**	1,362
Tax effect of expenses not deductible for tax purpose	**2,694**	1,466
Additional tax benefit applicable to the Group *(Note 2)*	**(2,567)**	(3,402)
Effect of share of results of an associate	**(27)**	1,652
Effect of share of results of a joint venture	**(831)**	(683)
Effect of different EIT rate applicable to a subsidiary	**675**	–
Effect of change in EIT rate applicable to a subsidiary	**–**	1,073
Effect of change in unrealised profit/loss attributable to purchases from an associate	**(206)**	175
Income tax (credit) expense for the year	**(5,753)**	7,908

Notes:

1. For the year ended 31 December 2020, the PRC EIT rate of 15% (2019: 15%) is applicable to Nanfang Communication and Yingke that account for substantial operation of the Group.

2. Pursuant to the relevant tax rules and regulations, expenses in research nature are entitled to additional tax deduction at 75% (2019: 75%) of the cost incurred.

10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**15,709**	15,702
Less: Depreciation capitalised in inventories	**(12,476)**	(12,806)
	3,233	2,896
Depreciation of right-of-use assets	**1,432**	1,198
Auditor's remuneration	**800**	1,400
Staff costs (including the directors' remuneration as disclosed in note 11 below):		
Salaries, wages and allowances	**35,733**	36,639
Retirement benefit scheme contributions	**1,691**	4,646
Total staff costs	**37,424**	41,285
Cost of inventories recognised as cost of sales	**340,793**	404,781

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

Directors

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

	Fees RMB'000	Salaries wages, and allowances RMB'000	Discretionary bonuses RMB'000 *(Note)*	Retirement benefit scheme contributions RMB'000	Total RMB'000
Year ended 31 December 2020					
Executive directors					
Mr. Shi Ming	180	1,926	–	150	2,256
Ms. Yu Rumin	300	300	–	15	615
Ms. Yu Ruping	–	596	–	49	645
Non-executive director					
Mr. Yu Jinlai	–	253	–	–	253
Independent non-executive directors					
Mr. Wu Wing Kuen	190	–	–	–	190
Mr. Lam Chi Keung	169	–	–	–	169
Mr. Chan Kai Wing	169	–	–	–	169
	1,008	3,075	–	214	4,297

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

Directors (continued)

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

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

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

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

Employees

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2020, 3 individuals (2019: 3 individuals) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining 2 individuals (2019: 2 individuals) for the year ended 31 December 2020 were as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and allowances	**602**	782
Discretionary bonuses *(Note)*	**133**	–
Retirement benefit scheme contributions	**31**	110
	766	892

Note: The discretionary bonuses are determined with reference to the individual performance of the employee.

	Year ended 31 December Number of employees	
	2020	2019
Less than HK$1,000,000	**2**	2

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

No emoluments were paid by the Group to any of the directors of the Company 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 of the Company waived any emoluments for both years.

12. (LOSS) EARNINGS PER SHARE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share ((Loss) profit for the year attributable to owners of the Company)	**(19,182)**	33,856

	Year ended 31 December	
	2020	2019
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,120,000**	1,120,000

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

13. DIVIDENDS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2019 Final, paid – HK$0.03828 (equivalent to RMB0.035) per ordinary share (2019: HK$0.07098 (equivalent to RMB0.0625) per ordinary share)	**39,200**	70,000

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2020 (2019: final dividend of HK$0.03828 (equivalent to RMB0.035) per ordinary share, amounting to RMB39,200,000).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2019	62,991	103,146	11,807	9,563	1,055	188,562
Additions	–	9,501	3,961	–	216	13,678
Write-off	–	(1,054)	–	–	–	(1,054)
Transfer	–	522	–	–	(522)	–
At 31 December 2019	62,991	112,115	15,768	9,563	749	201,186
Additions	**–**	**4,142**	**–**	**–**	**744**	**4,886**
Disposal	**–**	**–**	**–**	**(106)**	**–**	**(106)**
Transfer	**–**	**596**	**–**	**–**	**(596)**	**–**
At 31 December 2020	**62,991**	**116,853**	**15,768**	**9,457**	**897**	**205,966**
ACCUMULATED DEPRECIATION						
At 1 January 2019	13,753	55,934	2,033	6,770	–	78,490
Provided for the year	2,564	11,751	842	545	–	15,702
Eliminated upon write-off	–	(1,001)	–	–	–	(1,001)
At 31 December 2019	16,317	66,684	2,875	7,315	–	93,191
Provided for the year	**2,567**	**11,518**	**922**	**702**	**–**	**15,709**
Eliminated upon disposal	**–**	**–**	**–**	**(101)**	**–**	**(101)**
At 31 December 2020	**18,884**	**78,202**	**3,797**	**7,916**	**–**	**108,799**
CARRYING VALUE						
At 31 December 2020	**44,107**	**38,651**	**11,971**	**1,541**	**897**	**97,167**
At 31 December 2019	46,674	45,431	12,893	2,248	749	107,995

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

The Group's properties are located in the PRC.

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

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Buildings	**6,218**	6,218
Plant, machinery and equipment	**35,850**	34,422
Motor vehicles	**6,890**	6,890
	48,958	47,530

Impairment assessment

In view of the operating loss and operating cash outflow of the Group's business, the management of the Group concluded that there was indication for impairment and conducted impairment assessment on the Group's property, plant and equipment and rights-of-use assets with carrying amount of RMB97,167,000 and RMB30,159,000, respectively, to determine their recoverable amounts. The Group estimates the recoverable amount of the cash-generating unit to which these property, plant and equipment and right-of-use assets belong.

The recoverable amount of the aforesaid cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate of 18.0%. The annual growth rate after the 5-year period used is 2.0%. Other key assumptions for the value in use calculation include estimated selling prices, sales volume and major material costs, which are forecasted based on the Group's past performance and management expectations for the market development plan.

During the year 31 December 2020, no impairment loss (2019: N/A) in respect of property, plant and equipment and rights-of-use assets was recognised as the recoverable amount of the cash-generating unit is higher than its carrying amount.

15. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased office premise RMB'000	Total RMB'000
As at 1 January 2020			
Carrying amount	28,259	1,795	30,054
As at 31 December 2020			
Carrying amount	29,193	966	30,159
For the year ended 31 December 2020			
Depreciation charge	603	829	1,432
Additions to right-of-use assets	1,537	–	1,537
For the year ended 31 December 2019			
Depreciation charge	508	690	1,198
Additions to right-of-use assets	4,054	2,485	6,539

	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Expense relating to short-term leases	**322**	260
Total cash outflow for leases	**2,683**	5,037

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

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

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

Impairment assessment

For the purpose of impairment assessment, the above right-of-use assets have been allocated to cash-generating unit of the Group's business. Details of the impairment assessment are set out in note 14.

16. INTEREST IN AN ASSOCIATE

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Cost of investment in an associate, unlisted	**73,500**	73,500
Share of post-acquisition profit of an associate, net of dividends received	**14,970**	28,114
	88,470	101,614

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

Name of entity	Form of business structures	Place of establishment	Place of operation	Proportion of equity interests held by the Group at 31 December 2020	2019	Proportion of voting rights at 31 December 2020	2019	Principal activities
Jiangsu Nanfang Optic Electric Technology Company Limited (江蘇南方光纖科技有限公司)	Incorporated	The PRC	The PRC	**49%**	49%	**49%**	49%	Manufacturing and sales of optical fibre

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

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Current assets	**103,438**	134,591
Non-current assets	**115,090**	114,622
Current liabilities	**(33,894)**	(37,481)
Non-current liabilities	**(4,082)**	(4,355)
Net assets	**180,552**	207,377
Proportion of the Group's ownership interest therein	**49%**	49%
Group's share of net assets of an associate	**88,470**	101,614

16. INTEREST IN AN ASSOCIATE (CONTINUED)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	**140,860**	192,287
Profit (loss) and total comprehensive income (expense) for the year	**3,175**	(31,128)
Group's share of profit (loss) of an associate	**1,556**	(15,253)
Adjustment for unrealised (profit) loss for the purchase of optical fibre from an associate which remains unsold at the end of reporting period	**(1,375)**	4,239
Group's share of profit (loss) of an associate presented on the consolidated statement of profit or loss and other comprehensive income	**181**	(11,014)
Dividends received from an associate	**14,700**	–

17. INTEREST IN A JOINT VENTURE

	2020	2019
	RMB'000	RMB'000
Cost of unlisted investment in a joint venture	**76,500**	76,500
Share of post-acquisition profit of a joint venture	**3,545**	5,876
	80,045	82,376

The details of the Group's interest in a joint venture are as follows:

Name of joint venture	Place of establishment	Place of operation	Fully paid registered capital	Attributable equity interest of the Group at 31 December		Principal activities
				2020	2019	
Jiangsu Yingke Optical Material Technology Company Limited (江蘇盈科光導科技有限公司)	The PRC	The PRC	RMB150,000,000	**51%**	51%	Manufacturing and sales of optical fibre preforms

The joint venture's financial and operating decisions require unanimous consents of both the Group and the joint venture partner.

17. INTEREST IN A JOINT VENTURE (CONTINUED)

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

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Current assets	**243,125**	86,461
Non-current assets	**55,926**	79,731
Current liabilities	**(142,101)**	(4,670)
Net assets	**156,950**	161,522
Proportion of the Group's ownership interest therein	**51%**	51%
Group's share of net assets of a joint venture	**80,045**	82,376

17. INTEREST IN A JOINT VENTURE (CONTINUED)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	**271,105**	124,696
Profit and total comprehensive income for the year	**10,859**	8,930
Group's share of profit of a joint venture	**5,538**	4,554
Dividend received from a joint venture	**7,869**	–
The above profit and total comprehensive income for the year includes the following:		
Depreciation and amortisation	**(22,297)**	(19,623)
Interest income	**1,127**	219
Income tax expense	**(3,533)**	(2,778)

18. FINANCIAL ASSETS AT FVTPL

On 18 September 2020, Century Planet, Gold Image Limited ("**Gold Image**") and the sole shareholder of Gold Image (the "**Sole Shareholder**") entered into a subscription agreement ("**Subscription Agreement**"), pursuant to which (i) Century Planet conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue 9,999 subscription shares ("**Subscription Shares**") at a consideration of US$9,999, representing 99.99% of the total issued share capital of Gold Image as enlarged by the issue of the Subscription Shares; (ii) the Sole Shareholder agreed to grant a call option to Century Planet which Century Planet may exercise at any time during the period of two years after the completion of the acquisition of Gold Image to purchase the remaining one issued share of Gold Image held by the Sole Shareholder at a consideration of US$1; and (iii) Century Planet will acquire the shareholder's loan in a sum of US$23,038,052 from the Sole Shareholder at a consideration of US$23,038,052. The transaction was completed on 31 December 2020. The aggregate consideration of US$23,048,052 (approximately RMB151,448,000) (the "**Consideration**") was settled by way of cash. Pacific Smart is a wholly-owned subsidiary of Gold Image and its principal activity is investment in 8,095,527 class A preferred shares ("**Preferred Shares**") of Venus Pearl SPV2 Co Limited ("**SPV2**"), representing approximately 4.59% of the total issued share capital of SPV2 as at the date of the Subscription Agreement.

The nature and certain holder's rights associated with the Preferred Shares (which may or may not be available to ordinary shares of SPV2) include but are not limited to the following:

(i) voting rights;

(ii) right of participation of issue of new equity securities of SPV2;

(iii) first right of refusal to purchase securities offered by other shareholders of SPV2;

(iv) tag right to sale;

(v) anti-dilution protection if the issue price of any new equity securities of SPV2 is lower than the issue price of the Preferred Shares;

(vi) adjustment on the number of class A preferred shares of SPV2 depending on the amount of consolidated net profits of SPV2;

(vii) right of redemption; and

(viii) liquidation preference.

The Preferred Shares are held by Pacific Smart and are accounted for as its long-term investment. The fair value of the financial assets at FVTPL on 31 December 2020 amounted to approximately RMB151,599,000 which was determined with reference to the Consideration. The acquisition of subsidiary is accounted for as an asset acquisition.

Since the transaction was entered into with independent third parties, the fair value hierarchy is classified as Level 1 as at 31 December 2020.

19. INVENTORIES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	**10,984**	19,027
Work in progress	**3,179**	6,758
Finished goods	**11,467**	19,239
	25,630	45,024

20. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	**370,858**	391,067
Less: Allowance of credit losses	**(6,446)**	(5,857)
	364,412	385,210
Bills receivables *(Note)*	**27,018**	19,966
	391,430	405,176

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

As at 1 January 2019, the Group had net carrying amounts of trade receivables and bills receivables of RMB531,458,000 (net of allowance of credit losses of RMB6,055,000) and RMB7,861,000, respectively.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Less than 6 months	**344,066**	334,140
More than 6 months, but less than 1 year	**13,816**	44,800
More than 1 year	**6,530**	6,270
	364,412	385,210

As at 31 December 2020, included in the Group's trade receivables balances are debtors with aggregate gross carrying amount of RMB8,641,000 (2019: RMB11,925,000) which are past due as at the reporting date and lifetime ECL of credit-impaired balances of RMB5,777,000 (2019: RMB5,652,000) was recognised. The remaining past due trade receivables with gross carrying amount of RMB2,864,000 (2019: RMB6,273,000) has been past due 90 days or more and is not considered as in default because these customers (mainly the Major PRC Telecommunications Network Operators) are in the process of internal settlement procedures that the management of the Group has acknowledged and approved the extended credit period.

For the year ended 31 December 2020, 94.9% (2019: 98.0%) of the Group's sales of optical fibre cables, optical distribution network devices and other materials were made to the Major PRC Telecommunications Network Operators and the remainder was made to other third parties. The Group usually issues invoices in six months after completion of delivery of goods. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to customers with good repayment history. The Group does not obtain collateral from customers.

Details of impairment assessment of trade and bills receivables are set out in note 34.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Prepayments for inventories	**6,482**	3,440
Prepayments for acquiring property, plant and equipment	**701**	1,256
Prepaid expenses	**960**	1,834
Value-added-tax ("**VAT**") recoverable	**289**	–
Other receivables:		
– Loan to Pacific Smart *(note)*	**–**	19,249
– Others	**7,726**	6,778
Less: Allowance for credit losses on other receivables	**(619)**	(409)
	7,107	25,618
	15,539	32,148
Less: Portion classified as non-current portion	**(701)**	(2,173)
Current portion	**14,838**	29,975

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

Details of impairment assessment of other receivables are set out in note 34.

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

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 4.2% per annum (2019: from 0.3% to 4.2% per annum) at the end of the reporting period.

As at 31 December 2019, included in the Group's bank deposits with original maturity more than three months were bank deposits amounting to RMB44,680,000 which were due for withdrawal within twelve months at the end of the reporting period. As at 31 December 2020, there were no bank deposits with original maturity more than three months which were due for withdrawal within twelve months at the end of the reporting period.

As at 31 December 2020, bank deposits with original maturity more than three months amounting to RMB102,600,000 (2019: RMB98,428,000) are due for withdrawal in January 2022 (2019: January 2022).

As at 31 December 2020, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits and balances totalling approximately RMB152,025,000 (2019: RMB55,167,000) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

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

23. BANK BORROWINGS

	At 31 December	
	2020 **RMB'000**	2019 RMB'000
Secured and guaranteed bank borrowing	**72,276**	–
Unsecured and guaranteed bank borrowings	**100,000**	110,000
	172,276	110,000
Variable-rate bank borrowings	**102,276**	–
Fixed-rate bank borrowings	**70,000**	110,000
	172,276	110,000
Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but are repayable based on scheduled repayment dates set out in the loan agreements:		
Within one year	**100,000**	110,000
More than two years but not exceeding five years	**72,276**	–
	172,276	110,000
Less: Amounts due within one year shown under current liabilities	**(172,276)**	(110,000)
Amounts shown under non-current liabilities	**–**	–

23. BANK BORROWINGS (CONTINUED)

Included in the balance as at 31 December 2020 are fixed-rate bank borrowings of RMB70,000,000 (2019: RMB110,000,000) which carry interest at rates ranging from 3.45% to 4.35% per annum (2019: 4.4% per annum).

At 31 December 2020, bank borrowings of RMB102,276,000 (2019: nil) carry interest at variable market interest rates ranging from 1.86 % to 4.35% per annum (2019: nil).

At 31 December 2020, a bank borrowing of Euro ("**EUR**") 9,080,000 (equivalent to approximately RMB72,276,000) (2019: nil) is secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits) and is guaranteed by a director of the Company. All the other bank borrowings are denominated in the functional currency of the group entities and guaranteed by group companies.

24. TRADE AND BILLS PAYABLES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	**120,914**	152,160
Bills payable	**94,963**	134,019
	215,877	286,179

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

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

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Less than 6 months	**118,177**	145,295
More than 6 months, but less than 1 year	**453**	3,572
More than 1 year	**2,284**	3,293
	120,914	152,160

Included in trade payables are amount due to an associate of RMB40,939,000 (2019: RMB67,109,000) as at 31 December 2020. The amount due to the associate is unsecured, interest-free and payable according to the relevant purchase agreements.

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 certain restricted bank deposits and balances.

25. OTHER PAYABLES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Advance from the ultimate holding company *(Note (a))*	**5,167**	5,405
Other payables *(Note (b))*	**10,129**	16,311
Staff costs payables	**15,356**	15,033
Other taxes payable	**20,244**	32,226
	50,896	68,975

Notes:

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

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

26. LOAN FROM A JOINT VENTURE

At 31 December 2020, the amount is unsecured, interest bearing at 4.35% per annum and repayable on or before 25 December 2021.

27. CONTRACT LIABILITIES

As at 1 January 2019, 31 December 2019 and 31 December 2020, the Group's contract liabilities were RMB19,000, RMB388,000 and RMB400,000, respectively. The Group's contract liabilities mainly represent the Group's obligation to transfer optical fibre cables to customers subsequently for which the Group has received advance payments from the customers. The contract liabilities as at 1 January 2019 were recognised as revenue in 2019. The Group's contract liabilities as at 31 December 2019 have been recognised as revenue during the year ended 31 December 2020 and the Group's contract liabilities as at 31 December 2020 are expected to be recognised as revenue in 2021.

28. LEASE LIABILITIES

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Lease liabilities payable		
Within one year	**849**	824
Within a period of more than one year but not more than two years	**144**	849
Within a period of more than two years but not more than five years	**–**	144
	993	1,817
Less: Amount due for settlement within 12 months shown under current liabilities	**(849)**	(824)
Amount due for settlement after 12 months shown under non-current liabilities	**144**	993

The above lease liabilities arose from leasing an office premise for three years starting in March 2020 and are discounted at 3% per annum.

29. DEFERRED TAXATION

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

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred tax assets	**11,836**	4,265
Deferred tax liabilities	**(4,254)**	(9,125)
	7,582	(4,860)

29. DEFERRED TAXATION (CONTINUED)

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

	Distributable profits of subsidiaries, an associate and a joint venture RMB'000	Allowance for impairment of trade receivables RMB'000	Deferred income RMB'000	Tax losses RMB'000	Unrealised (losses)/profit eliminated in inventories RMB'000	Accrual for staff costs RMB'000	Total RMB'000
At 1 January 2019	(7,587)	908	2,683	–	–	1,745	(2,251)
Change in EIT rate applicable to a subsidiary and charge to profit or loss	–	–	(1,073)	–	–	–	(1,073)
(Charge) credit to profit or loss	(1,362)	32	728	–	(175)	(759)	(1,536)
At 31 December 2019	(8,949)	940	2,338	–	(175)	986	(4,860)
Utilised	2,944	–	–	–	–	–	2,944
Credit to profit or loss	1,751	120	109	7,010	206	302	9,498
At 31 December 2020	**(4,254)**	**1,060**	**2,447**	**7,010**	**31**	**1,288**	**7,582**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries (including share of retained profits of an associate and a joint venture) amounting to RMB160,342,000 (2019: RMB195,373,000) as at 31 December 2020 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

30. DEFERRED INCOME

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

31. SHARE CAPITAL

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

Presented in the consolidated financial statements as	
	RMB'000
At 1 January 2019, 31 December 2019 and 2020	997

32. SHARE OPTION SCHEME

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

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

32. SHARE OPTION SCHEME (CONTINUED)

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.

No option was granted, exercised, cancelled nor lapsed under the Share Option Scheme since its effective date on 24 November 2016 and there was no outstanding share option as at 31 December 2019 and 2020.

33. CAPITAL RISK MANAGEMENT

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

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

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

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**776,061**	959,799
Financial assets at FVTPL	**151,599**	–
Financial liabilities		
Amortised cost	**431,449**	417,895

Financial risk management objectives and policies

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

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

Market risk

Currency risk

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

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	
	2020	2019
	RMB'000	RMB'000
Assets		
Bank deposits and balances		
– HK$	**4,117**	2,868
– US$	**54**	377
– EUR	**70**	–
Loan to Pacific Smart		
– US$	**–**	19,249
Liabilities		
Bank borrowing		
– EUR	**72,276**	–
Advance from the ultimate holding company		
– HK$	**5,167**	5,405

The following table details the Group's sensitivity to a 5% (2019: 5%) increase in the exchange rate of RMB against HK$, US$ and EUR. 5% (2019: 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% (2019: 5%) change in RMB against HK$, US$ and EUR.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
RMB strengthen 5% against HK$		
Decrease in post-tax loss (2019: Increase in post-tax profit)	**53**	127
RMB strengthen 5% against US$		
Increase in post-tax loss (2019: Decrease in post-tax profit)	**3**	(981)
RMB strengthen 5% against EUR		
Decrease in post-tax loss	**3,614**	N/A

For a 5% (2019: 5%) weakening of the RMB against HK$, US$ and EUR, there would be an equal and opposite impact on the post-tax results for the year.

Interest rate risk

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

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing restricted bank balances, bank balances and bank borrowings 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 restricted bank balances, bank balances and variable rate bank borrowings of the Group had been 10 basis points (2019: 10 basis points) higher, and all other variables were held constant, the potential effect on post-tax results is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Decrease in post-tax loss (2019: Increase in post-tax profit)	**144**	314

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

There would be an equal and opposite impact on the above post-tax (loss) 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.

Price risk on financial assets at FVTPL

The Group is exposed to other price risk through its investment in financial assets at FVTPL (as disclosed in note 18).

The sensitivity analysis below has been determined based on the exposure to price risk at the end of the reporting period.

If the price of the investment in financial assets at FVTPL as at 31 December 2020 had been 5% higher/lower, a decrease in post-tax loss of RMB7,580,000 for the year ended 31 December 2020 as a result of the change in fair value of the financial assets at FVTPL. In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk since the exposure at 31 December 2020, when the acquisition of the investment was completed, does not reflect the exposure during the year then ended.

Credit risk and impairment assessment

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

Trade and bills receivables arising from contracts with customers

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

An impairment loss under ECL model, net of reversal, of RMB589,000 (2019: RMB620,000) is recognised for trade receivables for the year. Details of the quantitative disclosure are set out below in this note.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Other receivables

The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of ECL of other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information. The 12m ECL for other receivables of RMB619,000 (2019: RMB409,000) was recognised as at 31 December 2020.

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances

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

The Group's internal credit risk grading assessment comprises following categories:

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

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

	Notes	Internal credit rating	12m or lifetime ECL	Average loss rate 2020 (%)	Average loss rate 2019 (%)	2020 Gross carrying amount RMB'000		2019 Gross carrying amount RMB'000	
Financial assets at amortised cost									
Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances	22	Level 1	12m ECL	–	–		377,075		529,005
Other receivables	21	Level 1	12m ECL	0.11	0.04	2,617		19,249	
		Level 2	12m ECL	2.29	3.75	1,013		4,427	
		Level 3	12m ECL	7.01	10.00	4,096		2,351	
							7,726		26,027
Trade and bills receivables – contracts with customers	20	Level 1	Lifetime ECL (not credit-impaired)	0.11	0.04	375,433		404,340	
		Level 2	Lifetime ECL (not credit-impaired)	2.29	3.75	16,666		1,041	
		Level 5	Lifetime ECL (credit-impaired)	100.00	100.00	5,777		5,652	
							397,876		411,033

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Allowance for impairment

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

	Trade receivables		Other receivables	
	Credit-impaired (Lifetime ECL)	Not credit-impaired (Lifetime ECL)	Not credit-Impaired (12m ECL)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	5,550	505	–	6,055
Credit losses recognised, net of reversal	920	(300)	409	1,029
Write-off	(818)	–	–	(818)
At 31 December 2019	5,652	205	409	6,266
Credit losses recognised, net of reversal	125	464	210	799
At 31 December 2020	**5,777**	**669**	**619**	**7,065**

Concentration on credit risk

The Group has concentration of credit risk because 93.9% (2019: 97.9%) of trade receivables as at 31 December 2020 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

	Weighted average interest rate	Repayable on demand or less than six months	Seven months to one year	One to five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020						
Bank borrowings						
– at fixed rate	4.3	70,000	–	–	70,000	70,000
– at variable rate	2.6	102,276	–	–	102,276	102,276
Loan from a joint venture	4.4	–	29,218	–	29,218	28,000
Trade, bills and other payables	N/A	231,173	–	–	231,173	231,173
		403,449	29,218	–	432,667	431,449
Lease liabilities	3.0	433	434	145	1,012	993
At 31 December 2019						
Bank borrowings						
– at fixed rate	4.4	110,000	–	–	110,000	110,000
Trade, bills and other payables	N/A	307,895	–	–	307,895	307,895
		417,895	–	–	417,895	417,895
Lease liabilities	3.0	433	434	1,012	1,879	1,817

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank loans with a repayment on demand clause are included in the "Repayable on demand or less than six months" time band in the above maturity analysis. As at 31 December 2020, the aggregate carrying amounts of these bank loans amounted to RMB172,276,000 (2019: RMB110,000,000). Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid within three years (2019: within one year) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Weighted average interest rate	Less than six months	Seven months to one year	One to five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020						
Bank borrowings						
– at fixed rate	**4.3**	**–**	**72,863**	**–**	**72,863**	**70,000**
– at variable rate	**2.6**	**–**	**32,467**	**72,998**	**105,465**	**102,276**
		–	**105,330**	**72,998**	**178,328**	**172,276**
At 31 December 2019						
Bank borrowings						
– at fixed rate	4.4	50,832	62,373	–	113,205	110,000

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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

Except for the financial assets at FVTPL, 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 of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate their fair values.

35. CAPITAL COMMITMENTS

	At 31 December	
	2020	2019
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	**1,070**	2,654

36. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Sales of other materials to an associate	**1,519**	240
Purchases of optical fibre and other materials from an associate	**125,568**	167,963
Purchases of raw materials from the holding company and fellow subsidiaries of the Group's joint venture partner	**72**	2,374

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

Besides, the remuneration of the directors of the Company and other members of key management during the year were as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Short-term benefits	**5,264**	4,672
Post-employment benefits	**281**	521
	5,545	5,193

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(a) The joint venture purchased certain optical fibre preforms and raw materials with an aggregate amount of RMB234,419,000 (2019: RMB89,374,000) from Hengtong Light Guide during the year;

(b) The joint venture sold optical fibre preforms with an aggregate amount of RMB174,962,000 (2019: nil) to Hengtong Light Guide during the year;

(c) The joint venture leased certain factory premises from Hengtong Light Guide with an aggregate rental of RMB1,544,000 (2019: RMB1,558,000) during the year;

(d) The joint venture sold optical fibre preforms with an aggregate amount of RMB97,438,000 (2019: RMB124,724,000) to the Group's associate during the year; and

(e) The joint venture provided service with an aggregate amount of RMB3,971,000 (2019: RMB7,213,000) to Hengtong Light Guide during the year.

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

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payable	Advance from the ultimate holding company	Loan from a joint venture	Lease liabilities	Bank borrowings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	–	8,897	–	–	200,000	208,897
Cash changes:						
Proceeds from bank borrowings	–	–	–	–	250,000	250,000
Repayments of bank borrowings	–	–	–	–	(340,000)	(340,000)
Repayment of lease liabilities	–	–	–	(668)	–	(668)
Repayment to ultimate holding company	–	(3,574)	–	–	–	(3,574)
Interest on lease liabilities and bank borrowings paid	–	–	–	(55)	(10,366)	(10,421)
Dividend paid	(70,000)	–	–	–	–	(70,000)
Non-cash changes:						
New lease entered	–	–	–	2,485	–	2,485
Interest on bank borrowings recognised	–	–	–	–	10,366	10,366
Dividend declared	70,000	–	–	–	–	70,000
Exchange losses, net	–	82	–	–	–	82
Interest on lease liabilities recognised	–	–	–	55	–	55
At 31 December 2019	–	5,405	–	1,817	110,000	117,222
Cash changes:						
Proceeds from bank borrowings	–	–	–	–	202,056	202,056
Repayments of bank borrowings	–	–	–	–	(140,000)	(140,000)
Loan from a joint venture	–	–	28,000	–	–	28,000
Repayment of lease liabilities	–	–	–	(824)	–	(824)
Repayment to ultimate holding company	–	(238)	–	–	–	(238)
Interest on lease liabilities and bank borrowings paid	–	–	–	(43)	(4,950)	(4,993)
Dividend paid	(39,200)	–	–	–	–	(39,200)
Non-cash changes:						
Interest on bank borrowings recognised	–	–	–	–	4,950	4,950
Dividend declared	39,200	–	–	–	–	39,200
Exchange losses, net	–	–	–	–	220	220
Interest on lease liabilities recognised	–	–	–	43	–	43
At 31 December 2020	–	5,167	28,000	993	172,276	206,436

38. GENERAL INFORMATION OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2019 and 2020 are set out as follows:

Name of subsidiary	Place of incorporation/ establishment and place of operation	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Company at 31 December		Principal activities
			2020	2019	
Directly held:					
Century Planet	BVI/Hong Kong	Ordinary share capital of US$1	**100%**	100%	Investment holding
Indirectly held:					
Nanfang Communication Group Limited	Hong Kong	Ordinary share capital of HK$10,000	**100%**	100%	Investment holding
MacroSmart#	The PRC	Paid-up registered capital of US$38,840,000	**100%**	100%	Investment holding
Nanfang Communication*	The PRC	Paid-up registered capital of RMB379,000,000	**100%**	100%	Manufacturing and sales of optical fibre cables and optical distribution network devices
Yingke*	The PRC	Paid-up registered capital of RMB50,000,000	**100%**	100%	Manufacturing and sales of optical fibre cables and optical distribution network devices
Gold Image	BVI	Ordinary share capital of US$10,000	**99.99%**	–	Investment holding
Pacific Smart	BVI	Ordinary share capital of US$1	**99.99%**	–	Investment holding
Jiangsu Nanfang Information Technology Company Limited*	The PRC	Paid-up registered capital of RMB15,000,000	**100%**	–	Manufacturing and sales of optical devices and the related research and development

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

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

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

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2020	2019
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**185,556**	185,556
Right-of-use assets	**966**	1,795
	186,522	187,351
CURRENT ASSETS		
Other receivables	**428**	430
Due from a subsidiary	**27,910**	78,624
Bank balances and cash	**8,038**	1,867
	36,376	80,921
CURRENT LIABILITIES		
Other payables	**250**	255
Lease liabilities	**849**	824
	1,099	1,079
NET CURRENT ASSETS	**35,277**	79,842
TOTAL ASSETS LESS CURRENT LIABILITIES	**221,799**	267,193
CAPITAL AND RESERVES		
Share capital	**997**	997
Reserves	**220,658**	265,203
TOTAL EQUITY	**221,655**	266,200
NON-CURRENT LIABILITIES		
Lease liabilities	**144**	993
	221,799	267,193

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

Movements of the Company's reserves

	Share premium RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	214,255	73,454	287,709
Profit and total comprehensive income for the year	–	47,494	47,494
Dividend paid *(Note 13)*	–	(70,000)	(70,000)
At 31 December 2019	214,255	50,948	265,203
Loss and total comprehensive expense for the year	**–**	**(5,345)**	**(5,345)**
Dividend paid *(Note 13)*	**–**	**(39,200)**	**(39,200)**
At 31 December 2020	**214,255**	**6,403**	**220,658**