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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

CHANGE IN USE OF PROCEEDS

Reference is made to (i) the prospectus (the “**Prospectus**”) of Nanfang Communication Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 November 2016 in relation to the listing (the “**Listing**”) of its shares on the Main Board of The Stock Exchange of Hong Kong Limited; (ii) the annual report of the Company for the year ended 31 December 2019 (“**2019 Annual Report**”); (iii) the announcement of the Company dated 11 August 2020 (“**2020 Announcement**”) providing supplemental information on the 2019 Annual Report; and (iv) the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the 2020 Annual Report.

USE OF PROCEEDS

After deduction of all related listing expenses and commissions, the net proceeds (the “**Net Proceeds**”) from the global offering of the Group amounted to approximately HK\$248.4 million.

According to the section headed “Future Plans and Use of Proceeds” of the Prospectus, the Net Proceeds were intended to be used by the Group for the following purposes:

- (i) approximately HK\$121.3 million to be used for constructing the phase II expansion plan of the Jin Tan Factory to expand the Group’s production capacity and increase the Group’s production efficiency;
- (ii) approximately HK\$70.8 million to be used for upstream development or acquisition of the optical fibre cable production value chain;
- (iii) approximately HK\$25.0 million to be used for research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment;

- (iv) approximately HK\$15.1 million to be used for repaying parts of the bank loans drawn down from a financial institution; and
- (v) approximately HK\$16.2 million to be used as additional working capital and used for other general corporate purpose in order to improve the liquidity and gearing ratio of the Group.

As disclosed in the 2019 Annual Report, the 2020 Announcement and the 2020 Annual Report, as at 31 December 2020:

- (a) approximately HK\$127.1 million of the Net Proceeds had been fully utilised in accordance with their intended purposes as specified in paragraphs (ii) to (v) above; and
- (b) the remaining Net Proceeds of approximately HK\$121.3 million, which were intended to be used for constructing phase II of the Jin Tin Factory had not been fully utilised by the Group, as such construction was delayed due to the limited land pool held by the relevant government authority. As an interim measure, approximately HK\$56.1 million had been used by the Group to purchase the necessary equipment to satisfy such production plans. It was initially anticipated by the Group that (i) the acquisition of land for phase II of the Jin Tan Factory would be completed by 30 June 2021; and (ii) the construction of the office and production facilities and installation of production facilities and equipment would be completed by 30 September 2022.

As at the date of this announcement, due to the limited land pool held by the relevant government authority, it is unable to grant further land for industrial use to the Group, and thus no suitable land is available for acquisition by the Group for the construction of phase II of the Jin Tan Factory. Therefore, approximately HK\$64.5 million of the Net Proceeds remain unutilised by the Group as at the date of this announcement.

CHANGE IN USE OF PROCEEDS

On 6 July 2021, having considered the above circumstances and for reasons set out in the paragraph headed “Reasons for and Benefits of the Change in Use of Proceeds” below, the Board resolved to reallocate the unutilised balance of the Net Proceeds in the amount of approximately HK\$64.5 million to be used as the Group’s general working capital, which is expected to be fully utilised by the Group by the end of 2021.

The utilisation of the Net Proceeds up to the date of this announcement and the revised use of the Net Proceeds after reallocation are set forth below:

Use of Net Proceeds	Intended use of Net Proceeds (HK\$ million)	Actual use of Net Proceeds as at the date of this announcement (HK\$ million)	Remaining balance of Net Proceeds as at the date of this announcement (HK\$ million)	Revised use of remaining balance of Net Proceeds (HK\$ million)
For constructing the phase II expansion plan of the Jin Tan Factory	121.3	56.8	64.5	–
For upstream development or acquisition of the optical fibre cable production value chain	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	25.0	25.0	–	–
For repaying parts of the bank loans drawn down from a financial institution	15.1	15.1	–	–
For additional working capital and other general corporate purpose	<u>16.2</u>	<u>16.2</u>	<u>–</u>	<u>64.5</u>
Total	<u><u>248.4</u></u>	<u><u>183.9</u></u>	<u><u>64.5</u></u>	<u><u>64.5</u></u>

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

Since Listing, the industry that the Group has been operating in experienced certain changes. As disclosed in the 2020 Annual Report, as a result of the domination by the Major PRC Telecommunication Network Operators in the market, there is currently a significant drop in product price across the entire industry, rendering a considerable decrease in the Group's gross profit. Thus, increasing the Group's working capital will strengthen its business liquidity. Furthermore, in light of the fierce market competition, boosting the Group's working capital will enhance the flexibility in the Group's capital utilisation and reduce additional finance costs. A stable and healthy liquidity position is also conducive to the Group's business development, thereby enabling the Group to increase its market share. Based on the aforesaid reasons, the Board considers that the reallocation of the Group's unutilised Net Proceeds as general working capital is more beneficial to the Group's future development.

As a result of the adjustment in the use of unutilised Net Proceeds, the equipment purchased by the Group that was originally intended to be used in phase II of the Jin Tin Factory had already been installed in the Group's existing production sites to meet its production targets.

The Board confirms that there are no material changes in the nature of the business of the Group. The Board considers that the reallocation of the unutilised Net Proceeds is in the interests of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

By order of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 6 July 2021

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