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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)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

HIGHLIGHTS

For the six months ended 30 June 2023, the Group's operating results were as follows:

- Total revenue decreased by approximately 20.8% to approximately RMB264.7 million (six months ended 30 June 2022: approximately RMB334.3 million).
- Gross profit increased by approximately 112.7% to approximately RMB26.5 million (six months ended 30 June 2022: approximately RMB12.5 million).
- Gross profit margin increased from approximately 3.7% to approximately 10.0%.
- Profit and total comprehensive income was approximately RMB2.1 million (six months ended 30 June 2022: loss and total comprehensive expense of approximately RMB19.6 million).
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023.

The board (the “**Board**”) of directors (the “**Directors**”) of Nanfang Communication Holdings Limited 南方通信控股有限公司 (the “**Company**”) is pleased to announce the following unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), together with the comparative unaudited figures for the six months ended 30 June 2022. The unaudited condensed consolidated interim results have not been audited and reviewed by the Company’s auditors, but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		<i>RMB’000</i>	<i>RMB’000</i>
		(Unaudited)	(Unaudited)
Revenue	3, 4	264,725	334,341
Cost of sales		(238,188)	(321,863)
Gross profit		26,537	12,478
Other income, gains, expenses and losses, net	5	13,643	9,285
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		–	(347)
Selling and distribution expenses		(8,353)	(11,731)
Administrative expenses		(18,552)	(21,384)
Research costs		(19,994)	(20,412)
Finance costs	6	(4,357)	(3,554)
Share of profit of an associate		7,739	5,676
Share of profit of a joint venture		2,741	4,076
Loss before income tax	8	(596)	(25,913)
Income tax credit	7	2,744	6,323
Profit/(loss) and total comprehensive income/ (expense) for the period		2,148	(19,590)
Earnings/(loss) per share	9	RMB0.001	RMB(0.013)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

		As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		104,338	81,721
Right-of-use assets		48,083	48,773
Interest in an associate		109,062	103,303
Interest in a joint venture		73,044	85,003
Financial assets at fair value through profit or loss (“FVTPL”)		173,471	167,150
Prepayments for acquiring property, plant and equipment		22,606	–
Restricted bank deposits and balances	12	107,000	107,000
Bank deposits with original maturity more than three months		10,500	10,500
Deferred tax assets		33,670	30,971
		681,774	634,421
CURRENT ASSETS			
Inventories		38,234	56,344
Trade and bills receivables	11	387,298	423,794
Prepayments, deposits and other receivables		59,784	48,203
Restricted bank deposits and balances	12	38,019	67,292
Bank deposits with original maturity more than three months		27,222	24,288
Bank deposits, bank balances and cash		278,782	229,931
		829,339	849,852
CURRENT LIABILITIES			
Trade and bills payables	13	270,958	318,186
Other payables		31,120	42,232
Loan from a joint venture		20,618	20,229
Contract liabilities		4,041	2,946
Lease liabilities		391	355
Bank borrowings	14	260,000	256,562
Tax payables		21,968	23,400
		609,096	663,910

		As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
NET CURRENT ASSETS		220,243	185,942
TOTAL ASSETS LESS CURRENT LIABILITIES		902,017	820,363
CAPITAL AND RESERVES			
Share capital	<i>15</i>	1,418	1,418
Reserves		773,580	771,432
Equity attributable to owners of the Company		774,998	772,850
NON-CURRENT LIABILITIES			
Bank borrowings	<i>14</i>	100,000	20,000
Deferred tax liabilities		12,053	12,102
Deferred income – government grants		14,966	15,199
Lease liabilities		–	212
		127,019	47,513
		902,017	820,363

Notes:

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

Sales of the Group’s optical fibre cables, optical distribution network devices and prepainted steel sheet are principally made to customers located in the People’s Republic of China (“PRC”).

(ii) **Performance obligations for contracts with customers**

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

4. SEGMENT INFORMATION

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

As the Group is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network device and is also engaged in processing and sales of prepainted steel sheet, the chief operating decision maker assesses performance of the business based on a measure of operating results and consider the business from the product perspective. Information reported to the chief operating decision maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group’s resources are integrated. Accordingly, the Group has identified two operating segments as follows:

- Manufacturing and sales of optical fibre cables and optical distribution network devices
- Processing and sales of prepainted steel sheet

The Group reportable segments are managed separately as each business offers different products and services and requires different business strategies. The chief operating decision maker assesses the performance of the operating segments mainly based on segment revenue and gross profit/(loss) of each operating segment. Selling and distribution expenses, administrative expenses and research costs are not included in the measure of the segments' performance which is used by chief operating decision maker as a basis for the purpose of resource allocation and assessment of segment performance. Impairment losses on trade and other receivables under expected credit loss model, net of reversal, share of profit of an associate, share of profit of a joint venture, other income, gains, expenses and losses, net, finance costs and income tax credit are also not allocated to individual operating segments. The following summary describes the operations in each of the Group's reportable segments:

	Manufacturing and sales of optical fibre cables and optical distribution network devices		Processing and sales of prepainted steel sheet		Group	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2023	2022	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue	<u>228,570</u>	<u>304,974</u>	<u>36,155</u>	<u>29,367</u>	<u>264,725</u>	<u>334,341</u>
Gross profit/(loss)	<u>25,220</u>	<u>14,945</u>	<u>1,317</u>	<u>(2,467)</u>	<u>26,537</u>	<u>12,478</u>

Geographical information

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

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	2,890	2,920
Foreign exchange gains, net	5,804	86
Gain on sales of other materials	4,250	5,165
Government grants recognised	635	630
Others	64	484
Other income, gains, expenses and losses, net	<u>13,643</u>	<u>9,285</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings	4,350	3,542
Interest on lease liabilities	<u>7</u>	<u>12</u>
Finance costs	<u><u>4,357</u></u>	<u><u>3,554</u></u>

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	(4)	(5)
– Deferred tax	<u>2,748</u>	<u>6,328</u>
Income tax credit	<u><u>2,744</u></u>	<u><u>6,323</u></u>

No provision for income taxes of the Company and its certain subsidiaries was made as they did not earn assessable income during the Reporting Period (six months ended 30 June 2022: 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” and it has been extended for a three-year-period in 2022. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the Reporting Period (six months ended 30 June 2022: 15%).

8. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	<u>238,188</u>	<u>321,863</u>
Loss before income tax has been arrived at after charging:		
Depreciation of property, plant and equipment	5,473	5,866
Less: Depreciation capitalised in inventories	<u>(4,199)</u>	<u>(4,450)</u>
Depreciation recognised as cost of sales	<u>1,274</u>	<u>1,416</u>
Depreciation of right-of-use assets	690	529
Staff costs (including the directors' remuneration):		
– Salaries, wages and allowances	14,136	14,097
– Retirement benefit scheme contributions	<u>2,483</u>	<u>2,419</u>
Total staff costs	<u><u>16,619</u></u>	<u><u>16,516</u></u>

9. EARNINGS/(LOSS) PER SHARE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic earnings/(loss) per share (Profit/(loss) for the Reporting Period attributable to owners of the Company)	<u><u>2,148</u></u>	<u><u>(19,590)</u></u>

	Six months ended 30 June	
	2023	2022
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u><u>1,626,240</u></u>	<u><u>1,478,400</u></u>

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

10. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Trade receivables	388,678	430,437
Less: Allowance of credit losses	<u>(6,643)</u>	<u>(6,643)</u>
Trade receivables, net	382,035	423,794
Bills receivable (<i>Note</i>)	<u>5,263</u>	<u>–</u>
Trade and bills receivables	<u><u>387,298</u></u>	<u><u>423,794</u></u>

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

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

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Less than 6 months	355,106	404,550
More than 6 months, but less than 1 year	19,523	10,989
More than 1 year	<u>7,406</u>	<u>8,255</u>
Trade receivables, net	<u><u>382,035</u></u>	<u><u>423,794</u></u>

Included in trade receivables are amount due from an associate of approximately RMB879,000 as at 30 June 2023 (31 December 2022: approximately RMB1,183,000). The amount due from the associate is unsecured, interest-free and receivable according to the relevant sales agreement.

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

12. RESTRICTED BANK DEPOSITS AND BALANCES

As at 31 December 2022 and 30 June 2023, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable, bank borrowings and a letter of guarantee.

13. TRADE AND BILLS PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables	151,410	154,535
Bills payable	119,548	163,651
	<hr/>	<hr/>
Trade and bills payables	270,958	318,186
	<hr/> <hr/>	<hr/> <hr/>

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

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Less than 6 months	144,187	149,622
More than 6 months, but less than 1 year	5,389	1,924
More than 1 year	1,834	2,989
	<hr/>	<hr/>
Trade payables	151,410	154,535
	<hr/> <hr/>	<hr/> <hr/>

Included in trade payables are amount due to an associate of approximately RMB53,655,000 as at 30 June 2023 (31 December 2022: approximately RMB66,436,000). The amount due to the associate is unsecured, interest-free and payable according to the relevant purchase agreement.

No amount is due to a related party as at 30 June 2023 (31 December 2022: approximately RMB1,000,000). The amount due to a related party is unsecured, interest free and payable according to the relevant purchase agreement.

As at 31 December 2022 and 30 June 2023, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's restricted bank deposits and balances.

14. BANK BORROWINGS

The Group's bank borrowings carry approximately RMB150,000,000 (31 December 2022: approximately RMB70,064,000) with variable market interest rates ranging from 3.29% to 4.00% (31 December 2022: ranging from 3.25% to 3.30%) per annum, and, approximately RMB210,000,000 (31 December 2022: approximately RMB206,498,000) fixed-rate bank borrowings with interest rates ranging from 3.05% to 3.30% (31 December 2022: ranging from 1.00% to 3.30%) per annum.

Included in bank borrowing, fixed rate bank borrowing of RMB100,000,000 (31 December 2022: fixed rate bank borrowing of EUR13,000,000 (equivalent to approximately RMB96,498,000)) was secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits of the Group).

All the other bank borrowings are denominated in the functional currency of the group entities and guaranteed by group companies.

15. SHARE CAPITAL

	As at 30 June 2023 HK\$'000 (Unaudited)	As at 31 December 2022 HK\$'000 (Audited)
Authorised		
8,000,000,000 ordinary shares of HK\$0.001 each	<u>8,000</u>	<u>8,000</u>
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Issued and fully paid		
1,626,240,000 (as at 31 December 2022: 1,626,240,000) ordinary shares of HK\$0.001 each	<u>1,626</u>	<u>1,626</u>
	RMB'000 (Unaudited)	RMB'000 (Audited)
Presented in the condensed consolidated statement of financial position	<u>1,418</u>	<u>1,418</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB264.7 million for the Reporting Period (six months ended 30 June 2022: approximately RMB334.3 million), representing a decrease of approximately 20.8% as compared to the same period in 2022.

During the Reporting Period, the gross profit of the Group was approximately RMB26.5 million (six months ended 30 June 2022: approximately RMB12.5 million), representing an increase of approximately 112.7% as compared to the same period in 2022.

During the Reporting Period, the profit and total comprehensive income of the Group was approximately RMB2.1 million (six months ended 30 June 2022: loss and total comprehensive expense of approximately RMB19.6 million).

During the Reporting Period, the basic earnings per share was approximately RMB0.001 (six months ended 30 June 2022: basic loss per share approximately RMB0.013).

FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices as well as processing and sales of prepainted steel sheet. During the Reporting Period, the Group recorded a total revenue of approximately RMB264.7 million, representing a decrease of approximately 20.8% from approximately RMB334.3 million for the six months ended 30 June 2022.

By product segment, revenue of approximately RMB228.6 million was contributed by the optical fibre cables and optical distribution network devices segment, representing a decrease of approximately 25.1% as compared to the same period of 2022 of approximately RMB305.0 million. This accounted for approximately 86.3% (six month ended 30 June 2022: approximately 91.2%) of the Group's total revenue. The decrease in revenue was due to the drop in the demand from the PRC major operators in 2023 and this led to decrease in the orders received by the Company.

On the other hand, revenue of approximately RMB36.2 million was contributed by prepainted steel sheet segment, representing an increase of approximately 23.1% as compared to the same period of 2022 of approximately RMB29.4 million. This accounted for approximately 13.7% (six months ended 30 June 2022: approximately 8.8%) of the Group's revenue.

Cost of sales

For the Reporting Period, cost of sales of the Group was approximately RMB238.2 million (six months ended 30 June 2022: approximately RMB321.9 million), representing a decrease of approximately 26.0% as compared to the same period in 2022.

Gross profit and gross profit margin

For the Reporting Period, the Group's gross profit was approximately RMB26.5 million (six months ended 30 June 2022: approximately RMB12.5 million), representing an increase of approximately 112.7% as compared to the same period in 2022. During the Reporting Period, the Group's gross profit margin was approximately 10.0% as compared to a gross profit margin of approximately 3.7% for the six months ended 30 June 2022. Owing to a significant drop in the cost of raw materials (including non-ferrous metals and some other chemical feedstocks), and the unit selling price remaining fairly stable, the Group's gross profit and gross profit margin were boosted in the Reporting Period.

Other income, gains, expenses and losses, net

The net other income of approximately RMB9.3 million for the six months ended 30 June 2022 has been increased to approximately RMB13.6 million for the Reporting Period. The increase was ascribed to the appreciation of financial assets denominated in foreign currency and thus a recognition of the attributable exchange gain.

Selling and distribution expenses

For the Reporting Period, the Group's selling and distribution expenses were approximately RMB8.4 million (six months ended 30 June 2022: approximately RMB11.7 million), representing a decrease of approximately 28.8% as compared to the same period in 2022. The decrease corresponded with the drop in the Group's revenue.

Administrative expenses

For the Reporting Period, the Group's administrative expenses were approximately RMB18.6 million (six months ended 30 June 2022: approximately RMB21.4 million), representing a decrease of approximately 13.2% as compared to the same period in 2022. The decline was consistent with the Group's overall operations.

Research costs

The Group's research costs were approximately RMB20.0 million for the Reporting Period (six months ended 30 June 2022: approximately RMB20.4 million), representing a decrease of approximately 2.0% compared to that of the same period of last year.

Finance costs

During the Reporting Period, the Group's finance costs were approximately RMB4.4 million (six months ended 30 June 2022: approximately RMB3.6 million), representing an increase of approximately 22.6% as compared to the same period in 2022. The rise in the borrowing rate and the average bank borrowings gave rise to the increase in the finance costs.

Share of profit of an associate

During the Reporting Period, the Group recorded a share of profit of an associate of approximately RMB7.7 million, representing an increase of 36.3% from approximately RMB5.7 million for the six months ended 30 June 2022. The associate is mainly engaged in the manufacturing and sales of optical fibre.

Share of profit of a joint venture

During the Reporting Period, the Group recorded a share of profit of a joint venture of approximately RMB2.7 million, representing a decrease of approximately 32.8% from approximately RMB4.1 million for the six months ended 30 June 2022. The joint venture is engaged in the manufacturing and sales of optical fibre preforms.

Income tax credit

During the Reporting Period, the Group recorded income tax credit of approximately RMB2.7 million (six months ended 30 June 2022: approximately RMB6.3 million), mainly represented by the recognition of deferred tax assets arising from tax losses.

Profit/(loss) and total comprehensive income/(expense) attributable to owners of the Company

As a result of the reasons cited in this section, the Group recorded the profit and total comprehensive income of approximately RMB2.1 million (six months ended 30 June 2022: loss and total comprehensive expense of approximately RMB19.6 million).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

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

Cash and loan position

As at 30 June 2023, 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 RMB461.5 million (31 December 2022: approximately RMB439.0 million), representing an increase of approximately 5.1% as compared to that as at 31 December 2022. As at 30 June 2023, the Group had interest-bearing bank borrowings amounting to approximately RMB360.0 million (31 December 2022: approximately RMB276.6 million) and loan from a joint venture of approximately RMB20.6 million (31 December 2022: approximately RMB20.2 million).

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 RMB100.0 million which was secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits of the Group) (31 December 2022: approximately RMB96.5 million, repayable after one year and denominated in Euro). The Group's bank borrowings of approximately RMB210.0 million (31 December 2022: approximately RMB206.5 million) carry fixed interest rates at rates range from 3.05% to 3.30% per annum (31 December 2022: ranging from 1.0% to 3.3% per annum). The bank borrowings of approximately RMB150.0 million (31 December 2022: approximately RMB70.1 million) carry variable market interest rates ranging from 3.29% to 4.00% per annum (31 December 2022: ranging from 3.25% to 3.30% per annum).

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

Charges on the Group's assets

As at 30 June 2023, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totalling approximately RMB145.0 million (31 December 2022: approximately RMB174.3 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 30 June 2023, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 95.0% (31 December 2022: approximately 92.1%).

Currency risk

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, loan from a joint venture, lease liabilities and fixed rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial instruments, mainly, restricted bank balances, bank balances and variable rate bank borrowings which carried 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 30 June 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team of staff responsible for determining credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. 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.

As at 30 June 2023, the Group has concentration of credit risk because approximately 89.4% (31 December 2022: approximately 88.9%) of trade receivables were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

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

Liquidity risk

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

Capital commitments

As at 30 June 2023, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB78.0 million (31 December 2022: approximately RMB122.7 million).

Employees and remuneration policies

As at 30 June 2023, the Group had approximately 320 employees (six months ended 30 June 2022: approximately 350). During the Reporting Period, the Group incurred staff costs of approximately RMB16.6 million (six months ended 30 June 2022: approximately RMB16.5 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the prevailing market employment practices and legislation.

OUTLOOK

Since early 2023, the optical fibre and optical fibre cable industry in the PRC has faced a situation of insufficient orders and a low operating rate, the main reason was that China Mobile and China Telecom have not yet launched tender projects for regular optical fibre cables and outdoor optical fibre cables, which introduced a stress of shortage of orders to the optical fibre and optical fibre cable industry, and market demand is relatively low.

Despite the impact of fluctuations in temporary demand, the demand for optical fibre and optical fibre cable will increase further as the digital economy continues to progress, the construction of communication infrastructure in the PRC accelerates, deployment of communication networks such as 5G and gigabit optical networks continues, and new businesses such as East-to-West Computing Resource Transfer, virtual reality and unmanned driving are being developed, with the driving force of recovery of the optical fibre and optical fibre cable industry mainly coming from the substantial increase in market demand of PRC telecommunications network operators. In June 2023, China Mobile invited submission of tender for 108.2 million fkm of regular optical fibre cables, again bringing positive news to the industry. As a leading indicator of the optical fibre cable market in the PRC, China Mobile's 2023 regular optical fibre cable tender project will enhance confidence in the optical fibre and optical fibre cable manufacturers with respect to their development, and other PRC telecommunications network operators will also launch several rounds of tender in the second half of the year.

It is proposed by the Ministry of Industry and Information Technology of the PRC in the "14th Five-Year Plan for the Development of the Information and Communication Industry" that improvements shall be made to the carrying capacity of core networks, deploy 200G/400G ultra-high-capacity core network optical transmission system, to guide optical transmission systems of 100G speed and higher to settle into metropolitan networks, and to speed up the extension and deployment of Optical Transport Network (OTN) equipment in the direction of integrated access node and user side. The National Industrial and Informatization Work Conference held earlier this year stressed on accelerating the construction of 5G and gigabit optical networks, launching the construction of "Broadband Borderlands". At the same time, the three major telecommunications network operators are accelerating the construction of computing power networks, and the demand for new types of optical fibres with higher added value will continue to rise. As the key underlying physical facilities of new infrastructure such as 5G, gigabit optical network and computing power network, optical fibre and optical fibre cable continue to boost China's communications development capabilities.

In addition to the telecommunications network operator market in the PRC, the non-operator market will also provide a certain demand for optical fibre and optical fibre cable. Power optical fibre cables are mainly used in high-speed data cables for transmitting power and various other information. In the current market, the field of application of power optical fibre cables grows increasingly vast. With the construction of public utilities and new residential areas, the demand for power optical fibre cables continues to increase, and the demand for power optical fibre cables is more obvious especially in the construction of smart grid. Overall, the impact factor of non-operators in the optical fibre and optical fibre cable market is gradually expanding.

Looking forward to the second half of 2023 and taking into account the impact of the release of optical fibre cable orders from telecommunication network operators and non-operators in the PRC market, as well as the impact of exports from overseas markets, the release of optical fibre cable orders is expected to accelerate. While speeding up the digestion of optical fibre and optical fibre cable inventory, the supply and demand for optical fibre and optical fibre cable will be in a state of equilibrium in the short-term. While stabilizing and striving to expand the market share in the optical fibre cable market of telecommunication network operators, the Group will also increase investment in the non-operator market, actively seek opportunities for product research and development that suit market development and new demands, continuously optimize product structure, and also continue to strengthen the ability to control raw material prices, thereby strengthening cost control of the Company and improving competitiveness and profitability of the Company.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, the Company has maintained a sufficient public float during the Reporting Period and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES AND OTHER INFORMATION

The Company is committed to maintaining a high standard of corporate governance and believes that a good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the 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 applicable code provisions as set out in the CG Code during the Reporting Period and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules 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 during the Reporting Period and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) consists of three independent non-executive Directors, namely Mr. Chan Kai Wing, Mr. Wu Wing Kuen and Mr. Liu Cheng Yi. Mr. Chan Kai Wing is the chairman of the Audit Committee.

The Audit Committee has, together with the management of the Company, reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

MATERIAL ACQUISITIONS AND DISPOSALS OF THE SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Reporting Period and up to the date of this announcement, the Group had no material acquisition or disposal of its subsidiaries and associated companies.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION DURING THE REPORTING PERIOD

With effect from 1 January 2022, the Listing Rules were amended by, among others, adopting a uniform set of 14 core standards for shareholder protections for issuers regardless of their place of incorporation as set out in Appendix 3 to the Listing Rules.

As such, the Board has proposed to make certain amendments to the articles of association of the Company (the “**Articles of Association**”) for the purposes of, among others, (i) conforming to the said core standards for shareholder protections; (ii) allowing general meetings of the Company to be held as an electronic meeting or a hybrid meeting; and (iii) incorporating certain housekeeping changes. The Board also proposed to adopt the new Articles of Association in substitution for, and to the exclusion of, the then existing Articles of Association.

The proposed amendments to the Articles of Association was subject to the passing of a special resolution by the shareholders of the Company at the annual general meeting (the “AGM”) of the Company convened on 26 June 2023. The special resolution relating to the proposed amendments to the Articles of Association was duly passed in the AGM and the new Articles of Association came into effect on the conclusion of the AGM. For details of the new Articles of Association, please refer to the announcement of the Company dated 22 March 2023, the circular of the Company dated 27 April 2023 and the AGM poll results announcement of the Company dated 26 June 2023. The approved and adopted new Articles of Association (in both English and Chinese) are available on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

IMPORTANT EVENTS AFTER REPORTING PERIOD

No important events affecting the Group has occurred since the end of the Reporting Period and up to the date of this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com). The interim report of the Company for the Reporting Period will be despatched to the Company’s shareholders on or before 28 September 2023 and will be available on the websites of each of the Stock Exchange and the Company.

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

Hong Kong, 30 August 2023

As at the date of this announcement, the executive directors are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive director is Mr. Yu Jinlai (chairman); and the independent non-executive directors are Mr. Wu Wing Kuen, Mr. Chan Kai Wing and Mr. Liu Cheng Yi.