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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 2022

HIGHLIGHTS

For the six months ended 30 June 2022, the Group's operating results were as follows:

- Total revenue increased by approximately 103.1% to approximately RMB334.3 million (six months ended 30 June 2021: approximately RMB164.6 million).
- Gross profit increased by approximately 3.5% to approximately RMB12.5 million (six months ended 30 June 2021: approximately RMB12.1 million).
- Gross profit margin decreased from approximately 7.3% to approximately 3.7%.
- Loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB19.6 million (six months ended 30 June 2021: approximately RMB36.8 million), represented a decrease of approximately 46.8%.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022.

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 2022 (the “**Reporting Period**”), together with the comparative unaudited figures for the six months ended 30 June 2021. 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 2022

| | <i>Notes</i> | Six months ended 30 June | |
|---|--------------|---------------------------------|-----------------------|
| | | 2022 | 2021 |
| | | <i>RMB’000</i> | <i>RMB’000</i> |
| | | (Unaudited) | (Unaudited) |
| Revenue | 3, 4 | 334,341 | 164,586 |
| Cost of sales | | <u>(321,863)</u> | <u>(152,534)</u> |
| Gross profit | | 12,478 | 12,052 |
| Other income, gains, expenses and losses, net | 5 | 9,285 | 8,822 |
| Impairment losses on trade and other receivables under expected credit loss model, net of reversal | | (347) | – |
| Selling and distribution expenses | | (11,731) | (8,101) |
| Administrative expenses | | (21,384) | (32,401) |
| Research costs | | (20,412) | (14,838) |
| Finance costs | 6 | (3,554) | (5,611) |
| Share of profit/(loss) of an associate | | 5,676 | (2,824) |
| Share of profit of a joint venture | | <u>4,076</u> | <u>286</u> |
| Loss before tax | 8 | (25,913) | (42,615) |
| Income tax credit | 7 | <u>6,323</u> | <u>5,792</u> |
| Loss and total comprehensive expense for the period | | <u>(19,590)</u> | <u>(36,823)</u> |
| Loss per share | 9 | <u>RMB(0.013)</u> | <u>RMB(0.033)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

| | | As at 30 June 2022 <i>RMB'000</i> (Unaudited) | As at 31 December 2021 <i>RMB'000</i> (Audited) |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 79,427 | 85,565 |
| Right-of-use assets | | 45,569 | 29,480 |
| Interest in an associate | | 96,674 | 89,240 |
| Interest in a joint venture | | 88,705 | 84,624 |
| Financial assets at fair value through profit or loss ("FVTPL") | | 153,016 | 153,016 |
| Prepayments for acquiring property, plant and equipment | | – | 52 |
| Restricted bank deposits and balances | <i>12</i> | 1,763 | 1,763 |
| Bank deposits with original maturity more than three months | | 118,972 | – |
| Deferred tax assets | | 29,651 | 25,414 |
| | | 613,777 | 469,154 |
| CURRENT ASSETS | | | |
| Inventories | | 48,529 | 45,112 |
| Trade and bills receivables | <i>11</i> | 501,591 | 374,167 |
| Prepayments, deposits and other receivables | | 11,239 | 34,048 |
| Tax recoverables | | – | 2,944 |
| Restricted bank deposits and balances | <i>12</i> | 62,800 | 62,063 |
| Bank deposits with original maturity more than three months | | – | 106,467 |
| Bank deposits, bank balances and cash | | 326,882 | 265,639 |
| | | 951,041 | 890,440 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | <i>13</i> | 363,858 | 207,063 |
| Other payables | | 78,941 | 60,171 |
| Loan from a joint venture | | 29,839 | 29,235 |
| Contract liabilities | | 236 | 852 |
| Lease liabilities | | 349 | 344 |
| Bank borrowings | <i>14</i> | 301,109 | 250,286 |
| Tax payables | | 21,806 | 22,036 |
| | | 796,138 | 569,987 |

| | | As at 30 June 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|--|-----------|---|--|
| NET CURRENT ASSETS | | <u>154,903</u> | <u>320,453</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u><u>768,680</u></u> | <u><u>789,607</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | <i>15</i> | 1,291 | 1,291 |
| Reserves | | <u>746,227</u> | <u>765,817</u> |
| Equity attributable to owners of the Company | | <u>747,518</u> | <u>767,108</u> |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | 5,340 | 6,267 |
| Deferred income – government grants | | 15,431 | 15,665 |
| Lease liabilities | | <u>391</u> | <u>567</u> |
| | | <u>21,162</u> | <u>22,499</u> |
| | | <u><u>768,680</u></u> | <u><u>789,607</u></u> |

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 2022 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2021.

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| Annual Improvements to IFRSs Amendments to IAS 16 | Annual Improvements to IFRS 2018-2020 Property, Plant and Equipment – Proceeds before Intended Use |
| Amendments to IAS 37 Annual Improvements to IFRS 3 Amendments to AG 5 | Onerous Contracts – Cost of Fulfilling a Contract Reference to the Conceptual Framework Accounting Guideline 5 Merger Accounting for Common Control Combinations (Revised) |

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

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

The Group’s revenue represents amounts received and receivable from the sale of optical fibre cables, 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 (the “PRC”).

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

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

4. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company (also general manager of the Group), being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of optical fibre cables, 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. Changes in fair value in FVTPL, impairment losses on trade and other receivables under expected credit loss model, net of reversal, share of profit/(loss) 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:

| | Six months ended 30 June 2022 | | |
|---------------------|---|---|--------------------------|
| | Manufacturing and sales of optical fibre cables and optical distribution network devices RMB'000 | Processing and sales of prepainted steel sheet RMB'000 | Group RMB'000 |
| Segment revenue | 304,974 | 29,367 | 334,341 |
| Gross profit/(loss) | <u>14,945</u> | <u>(2,467)</u> | <u>12,478</u> |

| | Six months ended 30 June 2021 | | |
|-----------------|---|---|--------------------------|
| | Manufacturing and sales of optical fibre cables and optical distribution network devices RMB'000 | Processing and sales of prepainted steel sheet RMB'000 | Group RMB'000 |
| Segment revenue | 164,586 | - | 164,586 |
| Gross profit | <u>12,052</u> | <u>-</u> | <u>12,052</u> |

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.

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

| | Six months ended 30 June | |
|----------------------------------|--------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Bank interest income | 2,920 | 4,888 |
| Foreign exchange gains, net | 86 | 1,713 |
| Gain on sales of other materials | 5,165 | 1,823 |
| Government grants recognised | 630 | 395 |
| Others | 484 | 3 |
| | <u>9,285</u> | <u>8,822</u> |

6. FINANCE COSTS

| | Six months ended 30 June | |
|-------------------------------|--------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Interest on bank borrowings | 3,542 | 5,599 |
| Interest on lease liabilities | 12 | 12 |
| | <u>3,554</u> | <u>5,611</u> |

7. INCOME TAX CREDIT

| | Six months ended 30 June | |
|-----------------------------------|--------------------------|----------------|
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| PRC Enterprise Income Tax (“EIT”) | | |
| – Current tax | (5) | (4) |
| Deferred tax | 6,328 | 5,796 |
| | <u>6,323</u> | <u>5,792</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 2021: nil).

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and the Implementation Regulation of the EIT Law, Jiangsu Nanfang Communication Technology Company Limited (“Nanfang Communication”) and Jiangsu Yingke Communication Technology Company Limited (“Yingke”), subsidiaries of the Company, are recognised as “High and New Technology Enterprise” for a three-year period starting from 7 November 2019. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the Reporting Period (six months ended 30 June 2021: 15%).

8. LOSS BEFORE TAX

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Loss before tax has been arrived at after charging: | | |
| Cost of inventories recognised as cost of sales | <u>321,863</u> | <u>152,534</u> |
| Depreciation of property, plant and equipment | 5,866 | 7,430 |
| Less: Depreciation capitalised in inventories | <u>(4,450)</u> | <u>(6,455)</u> |
| Depreciation recognised as cost of sales | <u>1,416</u> | <u>975</u> |
| Depreciation of right-of-use assets | 529 | 414 |
| Staff costs (including the Directors' remuneration): | | |
| – Salaries, wages and allowances | 14,097 | 12,411 |
| – Retirement benefit scheme contributions | 2,419 | 1,989 |
| – Equity-settled share-based payments expenses | <u>–</u> | <u>14,934</u> |
| Total staff costs | <u>16,516</u> | <u>29,334</u> |

9. LOSS PER SHARE

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2022 | 2021 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Loss | | |
| Loss for the purpose of basic loss per share (loss for the Reporting Period attributable to owners of the Company) | <u>(19,590)</u> | <u>(36,823)</u> |

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2022 | 2021 |
| | '000 | '000 |
| | (Unaudited) | (Unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>1,478,400</u> | <u>1,132,376</u> |

No diluted 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 2022 (six months ended 30 June 2021: nil).

11. TRADE AND BILLS RECEIVABLES

| | As at 30 June 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|----------------------------------|---|---|
| Trade receivables | 507,209 | 381,069 |
| Less: allowance of credit losses | <u>(10,175)</u> | <u>(9,111)</u> |
| Trade receivables, net | 497,034 | 371,958 |
| Bills receivable (<i>Note</i>) | <u>4,557</u> | <u>2,209</u> |
| Trade and bills receivables | <u>501,591</u> | <u>374,167</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 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Less than 6 months | 475,331 | 354,381 |
| More than 6 months, but less than 1 year | 18,865 | 11,343 |
| More than 1 year | <u>2,838</u> | <u>6,234</u> |
| Trade receivables, net | <u>497,034</u> | <u>371,958</u> |

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 2021 and 30 June 2022, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable, certain performance bonds, bank borrowings and a letter of guarantee.

13. TRADE AND BILLS PAYABLES

| | As at 30 June 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|--------------------------|---|---|
| Trade payables | 246,594 | 112,492 |
| Bills payable | <u>117,264</u> | <u>94,571</u> |
| Trade and bills payables | <u>363,858</u> | <u>207,063</u> |

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 2022 RMB'000 (Unaudited) | As at 31 December 2021 RMB'000 (Audited) |
|--|---|---|
| Less than 6 months | 201,417 | 108,138 |
| More than 6 months, but less than 1 year | 37,911 | 1,756 |
| More than 1 year | <u>7,266</u> | <u>2,598</u> |
| Trade payables | <u>246,594</u> | <u>112,492</u> |

Included in trade payables are amount due to an associate of approximately RMB87,650,000 as at 30 June 2022 (31 December 2021: approximately RMB22,752,000). 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 2022 (31 December 2021: approximately RMB1,577,000). The amount due to a related party is unsecured, interest free and payable according to the relevant purchase agreement.

As at 31 December 2021 and 30 June 2022, 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

As at 30 June 2022, 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 RMB91.1 million (31 December 2021: approximately RMB40.3 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), guaranteed by a director of the Company, repayable within one year and denominated in Euro. The Group's bank borrowings of approximately RMB180.0 million (31 December 2021: approximately RMB180.0 million) carry fixed interest rates ranging from 3.30% to 3.45% per annum (31 December 2021: 3.28% to 3.45%) and bank borrowings of approximately RMB121.1 million (31 December 2021: approximately RMB70.3 million) carry variable market interest rates ranging from 1.0% to 3.60% (31 December 2021: 0.74% to 3.60%) per annum.

15. SHARE CAPITAL

| | As at 30 June 2022 | As at 31 December 2021 |
|--|-------------------------------|---------------------------|
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Authorised | | |
| 8,000,000,000 ordinary shares of HK\$0.001 each | <u>8,000</u> | <u>8,000</u> |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Issued and fully paid | | |
| 1,478,400,000 (as at 31 December 2021: 1,478,400,000) ordinary shares of HK\$0.001 each | <u>1,478</u> | <u>1,478</u> |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Presented in the condensed consolidated statement of financial position as | <u>1,291</u> | <u>1,291</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading telecommunication manufacturer in the PRC, the Group recorded revenue of approximately RMB334.3 million for the Reporting Period (six months ended 30 June 2021: approximately RMB164.6 million), representing an increase of approximately 103.1% as compared with the same period in 2021.

During the Reporting Period, the gross profit of the Group was approximately RMB12.5 million (six months ended 30 June 2021: approximately RMB12.1 million), representing an increase of approximately 3.5% as compared with the same period in 2021.

During the Reporting Period, the Group recorded a loss and total comprehensive expense for the period attributable to owners of the Company of approximately RMB19.6 million (six months ended 30 June 2021: approximately RMB36.8 million), representing a decrease of approximately 46.8% as compared with the same period in 2021.

During the Reporting Period, the basic loss per share was approximately RMB0.013 (six months ended 30 June 2021: approximately RMB0.033).

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 RMB334.3 million, representing an increase of approximately 103.1% from approximately RMB164.6 million for the six months ended 30 June 2021.

By product segment, revenue of approximately RMB305.0 million was contributed by the optical fibre cables and optical distribution network devices segment, representing an increase of approximately 85.3% as compared to the same period of 2021 of approximately RMB164.6 million. This accounted for 91.2% (six month ended 30 June 2021: 100%) of the Group's total revenue. The increase in revenue was due to the increase in the Group's awarded shares and awarded prices in the centralised procurement of common optical fibre cables carried out by China Mobile and China Telecom in 2021, with the increased awarded prices implemented in December 2021 and January 2022 respectively.

On the other hand, revenue of approximately RMB29.4 million was contributed by prepainted steel sheet segment, which accounted for 8.8% of the Group's total revenue.

Cost of sales

For the Reporting Period, cost of sales of the Group was approximately RMB321.9 million (six months ended 30 June 2021: approximately RMB152.5 million), representing an increase of approximately 111.0% as compared to the same period in 2021.

Gross profit and gross profit margin

For the Reporting Period, the Group's gross profit was approximately RMB12.5 million (six months ended 30 June 2021: approximately RMB12.1 million), representing an increase of approximately 3.5% as compared to the same period in 2021. During the Reporting Period, the Group's gross profit margin was approximately 3.7% as compared to a gross profit margin of approximately 7.3% for the six months ended 30 June 2021. The decrease was mainly attributable to the resurgence of the Covid-19 pandemic during the sales year, which, coupled with the Russian-Ukraine conflict, led to a significant and steady rise in the cost of raw materials other than optical fibre (such as commodities including non-ferrous metals and some other chemical feedstocks) as well as the cost of logistics and transportation. This had an adverse impact on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

Net other income of approximately RMB8.8 million for the six months ended 30 June 2021 has been increased to approximately RMB9.3 million for the Reporting Period. The increase in net other income during the Reporting Period was mainly due to: (i) net gain generated from the sales of other materials increased to approximately RMB5.2 million (six months ended 30 June 2021: approximately RMB1.8 million); (ii) the bank interest income decreased to approximately RMB2.9 million (six months ended 30 June 2021: approximately RMB4.9 million); and (iii) net foreign exchange gains decreased to approximately RMB0.1 million (six months ended 30 June 2021: approximately RMB1.7 million).

Selling and distribution expenses

For the Reporting Period, the Group's selling and distribution expenses were approximately RMB11.7 million (six months ended 30 June 2021: approximately RMB8.1 million), representing an increase of approximately 44.8% as compared to the same period in 2021. The Group scaled up its operations significantly during the Reporting Period, and this led to a significant increase in transportation expenses.

Administrative expenses

For the Reporting Period, the Group's administrative expenses were approximately RMB21.4 million (six months ended 30 June 2021: approximately RMB32.4 million). The decline was mainly due to the fact that during the six months ended 30 June 2021, the Company recorded a one-off equity-settled share-based payment expenses of approximately RMB14.9 million, whereas no such expense was incurred during the Reporting Period.

Research costs

The Group's research costs were approximately RMB20.4 million for the Reporting Period (six months ended 30 June 2021: approximately RMB14.8 million), representing an increase of approximately 37.6% compared with that of last year. The increase was mainly attributable to the deployment of more resources to enhance product quality and structural transformation as well as development of new products.

Finance costs

During the Reporting Period, the Group's finance costs were approximately RMB3.6 million (six months ended 30 June 2021: approximately RMB5.6 million), representing a decrease of approximately 36.7% as compared to the same period in 2021. During the Reporting Period, the Group made use of financing tools to finance its operations and minimize its finance costs. As a result, the finance costs decreased as compared with the six months ended 30 June 2021.

Share of profit/loss of an associate

The Group recognised a share of profit of an associate of approximately RMB5.7 million for the Reporting Period, as compared to a share of loss of an associate of approximately RMB2.8 million for the six months ended 30 June 2021. 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 RMB4.1 million, representing an increase of approximately 13 times from approximately RMB0.3 million for the six months ended 30 June 2021. The joint venture is engaged in the manufacturing and sale of optical fibre preforms.

Income tax credit

During the six months ended 30 June 2022, the Group recorded income tax credit of approximately RMB6.3 million (six months ended 30 June 2021: approximately RMB5.8 million), mainly represented by the recognition of deferred tax assets related to tax losses.

Loss and total comprehensive expense attributable to owners of the Company

As a result of the above, for the Reporting Period, the Company recorded loss and total comprehensive expense attributable to owners of approximately RMB19.6 million (six months ended 30 June 2021: approximately RMB36.8 million), representing a decrease of approximately 46.8% as compared to the same period in 2021.

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 2022, 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 RMB510.4 million (31 December 2021: approximately RMB435.9 million), representing an increase of approximately 17.1% as compared to that as at 31 December 2021. As at 30 June 2022, the Group had interest-bearing bank borrowings amounting to approximately RMB301.1 million (31 December 2021: approximately RMB250.3 million) and loan from a joint venture of approximately RMB29.8 million (31 December 2021: approximately RMB29.2 million).

As at 30 June 2022, 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 RMB91.1 million (31 December 2021: approximately RMB40.3 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), guaranteed by a director of the Company, repayable within one year and denominated in Euro. The Group's bank borrowings of approximately RMB180.0 million (31 December 2021: approximately RMB180.0 million) carry fixed interest rates ranging from 3.30% to 3.45% per annum (31 December 2021: 3.28% to 3.45%) and bank borrowings of approximately RMB121.1 million (31 December 2021: approximately RMB70.3 million) carry variable market interest rates ranging from 1.0% to 3.60% (31 December 2021: 0.74% to 3.60%) 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 2022, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totalling approximately RMB66.8 million (31 December 2021: approximately RMB51.1 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 30 June 2022, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 109.3% (31 December 2021: approximately 77.2%).

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, an 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 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the condensed consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team responsible for 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.

As at 30 June 2022, the Group has concentration of credit risk because approximately 85.0% (31 December 2021: approximately 83.8%) 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 2022, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB6.6 million (31 December 2021: nil).

Employees and remuneration policies

As at 30 June 2022, the Group had approximately 350 employees (as at 30 June 2021: approximately 320). During the Reporting Period, the Group incurred staff costs of approximately RMB16.5 million (six months ended 30 June 2021: approximately RMB29.3 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 prevailing market employment practices and legislation.

OUTLOOK

According to the data published by the National Bureau of Statistics of China concerning the output of optical fibre cables in the PRC for the first half of 2022, the accumulative output of optical fibre cables from January to June amounted to approximately 165 million fkm, representing a year-on-year increase of approximately 17.9%. It is worth mentioning that the accumulative output of optical fibre cables in the PRC during the first half of 2022 reached a record high since 2018. The data also shows that the output of optical fibre cables has been on a steady year-on-year upward trend since 2019.

In March 2021, the Ministry of Industry and Information Technology issued the “‘Dual-gigabit’ Network Synergetic Development Action Plan (2021–2023)”, with the goal of building a “dual-gigabit” network infrastructure that will fully cover urban areas and qualified townships within three years, thereby commencing the construction of 5G and gigabit optical fibre networks in an orderly manner. By the end of 2022, gigabit optical fibre networks will cover 400 million households, and the number of 5G base stations in the PRC is expected to exceed 2 million, thus laying a solid foundation for 5G networks. In addition, the plans of major operators to upgrade their backbone networks will generate a huge demand for new types of ultra-low loss optical fibre such as the G.654E fibre. The construction of new data centres under the “Eastern Data and Western Computing” initiative will boost the demand for optical fibre that will provide physical connections such as the multimode optical fibre. Another important development in 2022 is that the China Broadnet has officially launched its 5G network services recently. In June 2022, the China Broadnet also completed its first nationwide centralized procurement of common optical fibre cables and butterfly-shaped optical fibre. With the China Broadnet entering the fray, the total size of the centralized procurement by operators in the PRC has further expanded. This also means that operators’ demand for optical fibre and optical fibre cables will further increase in the future.

According to the forecast by the CRU Group, a UK-based market research institute, the demand for optical fibre and optical fibre cables in the Chinese market will reach approximately 261 million fkm in 2022, representing a year-on-year increase of 6.5%. Meanwhile, under the construction plans of 5G and gigabit optical fibre networks, China's demand for optical fibre cables will maintain a compound annual growth rate of 2.9% from 2021 to 2026. Moreover, the demand for optical fibre and optical fibre cables in all regions around the globe is expected to grow in 2022, with the global growth rate expected to exceed 8%. The total demand for optical fibre is expected to exceed 600 million fkm in 2024. It is foreseeable that the demand for optical fibre and optical fibre cables, both in the PRC and around the world, will grow steadily in the next few years with the advancement of the construction of network infrastructure. Under the current circumstances, with the construction of network infrastructure in the PRC, the output of optical fibre cables is growing steadily. However, under the current trading conditions which lack an adequate linkage to raw material prices, settlement is based on the awarded price determined annually through tender. Under this mode of settlement, the Group is still facing enormous cost pressure.

The Group will seek further opportunities for the integration of the industry chain of optical fibre and optical fibre cables, explore new ways and improve existing models for horizontal cooperation within the industry, and enhance its control on the prices of raw materials, thus strengthening the Company's cost control and improving its competitiveness and profitability.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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 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 (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 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. Lam Chi Keung, Mr. Chan Kai Wing, and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee.

The Audit Committee has, together with the management of the Company reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2022.

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.

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 2022 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 2022

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