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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 2024

HIGHLIGHTS

For the six months ended 30 June 2024, the Group's operating results were as follows:

- Total revenue decreased by approximately 3.0% to approximately RMB256.8 million (six months ended 30 June 2023: approximately RMB264.7 million).
- Gross profit increased by approximately 30.4% to approximately RMB34.6 million (six months ended 30 June 2023: approximately RMB26.5 million).
- Gross profit margin increased from approximately 10.0% to approximately 13.5%.
- Profit and total comprehensive income was approximately RMB5.5 million (six months ended 30 June 2023: approximately RMB2.1 million).
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2024.

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 2024 (the “**Reporting Period**”), together with the comparative unaudited figures for the six months ended 30 June 2023. 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 2024

	Notes	Six months ended 30 June	
		2024 RMB’000 (Unaudited)	2023 RMB’000 (Unaudited)
Revenue	3, 4	256,750	264,725
Cost of sales		<u>(222,146)</u>	<u>(238,188)</u>
Gross profit		34,604	26,537
Other income, gains, expenses and losses, net	5	9,474	13,643
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		923	–
Selling and distribution expenses		(11,061)	(8,353)
Administrative expenses		(17,457)	(18,552)
Research costs		(13,419)	(19,994)
Finance costs	6	(2,157)	(4,357)
Share of profit of an associate		5,180	7,739
Share of profit of a joint venture		<u>1,700</u>	<u>2,741</u>
Profit/(loss) before income tax	8	7,787	(596)
Income tax (expense)/credit	7	<u>(2,268)</u>	<u>2,744</u>
Profit and total comprehensive income for the period		<u><u>5,519</u></u>	<u><u>2,148</u></u>
Earnings per share	9	<u><u>RMB0.003</u></u>	<u><u>RMB0.001</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

		As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		171,967	150,488
Right-of-use assets		46,776	47,380
Interest in an associate		102,354	97,145
Interest in a joint venture		49,456	47,756
Financial assets at fair value through profit or loss (“FVTPL”)		154,972	154,121
Restricted bank deposits and balances	12	1,472	108,122
Bank deposits with original maturity more than three months		–	10,500
Deferred tax assets		30,740	31,013
		<u>557,737</u>	<u>646,525</u>
CURRENT ASSETS			
Inventories		38,941	32,882
Trade and bills receivables	11	413,070	342,535
Prepayments, deposits and other receivables		44,819	84,513
Restricted bank deposits and balances	12	184,146	65,672
Bank deposits, bank balances and cash		211,912	247,767
		<u>892,888</u>	<u>773,369</u>
CURRENT LIABILITIES			
Trade and bills payables	13	329,963	259,318
Other payables		20,640	34,014
Contract liabilities		1,652	3,619
Lease liabilities		30	212
Bank borrowings	14	200,000	230,000
Tax payables		11,059	10,880
		<u>563,344</u>	<u>538,043</u>

		As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
NET CURRENT ASSETS		329,544	235,326
TOTAL ASSETS LESS CURRENT LIABILITIES		887,281	881,851
CAPITAL AND RESERVES			
Share capital	<i>15</i>	1,418	1,418
Reserves		782,149	776,630
Equity attributable to owners of the Company		783,567	778,048
NON-CURRENT LIABILITIES			
Bank borrowings	<i>14</i>	80,000	80,000
Deferred tax liabilities		9,296	9,070
Deferred income-government grants		14,418	14,733
		103,714	103,803
		887,281	881,851

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 D2 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 (“IFRS Accounting Standards”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2023.

Application of amendments to IFRS Accounting Standards

In the current interim period, the Group has applied the following amendments to IFRS Accounting Standards issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IAS 1	Non-current Liabilities with Covenants
Amendments to IAS 7	Supplier Finance Arrangements

The application of the new and amendments to IFRS Accounting Standards 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.

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 considers 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's 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 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 (expense)/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 pre-painted steel sheet		Group	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2024	2023	2024	2023	2024	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue	<u>245,801</u>	<u>228,570</u>	<u>10,949</u>	<u>36,155</u>	<u>256,750</u>	<u>264,725</u>
Gross profit	<u>34,530</u>	<u>25,220</u>	<u>74</u>	<u>1,317</u>	<u>34,604</u>	<u>26,537</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	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	3,557	2,890
Foreign exchange gains, net	801	5,804
Sales of electricity and gain on sales of other materials	607	4,250
Government grants recognized	4,714	635
Gain on disposal of property, plant and equipment	15	–
Others	<u>(220)</u>	<u>64</u>
Other income, gains, expenses and losses, net	<u>9,474</u>	<u>13,643</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings	3,706	4,350
Interest on lease liabilities	<u>1</u>	<u>7</u>
	3,707	4,357
Less: amounts capitalised as construction in progress	<u>(1,550)</u>	<u>–</u>
Finance costs	<u><u>2,157</u></u>	<u><u>4,357</u></u>

The capitalisation rate used to determine capitalised amounts of interests incurred for the six months ended 30 June 2024 was approximately 1.85%.

7. INCOME TAX EXPENSE/CREDIT

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current tax	1,769	4
– Deferred tax	<u>499</u>	<u>(2,748)</u>
Income tax expense/(credit)	<u><u>2,268</u></u>	<u><u>(2,744)</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 2023: 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 continuously recognised as “High and New Technology Enterprise” for a three-year-period starting 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 2023: 15%).

8. PROFIT/LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories recognised as cost of sales	<u>222,146</u>	<u>238,188</u>
Profit/(loss) before income tax has been arrived at after charging:		
Depreciation of property, plant and equipment	3,648	5,473
Less: Depreciation capitalised in inventories	<u>(3,228)</u>	<u>(4,199)</u>
Depreciation recognised as cost of sales	<u>420</u>	<u>1,274</u>
Depreciation of right-of-use assets	604	690
Staff costs (including the directors' remuneration):		
– Salaries, wages and allowances	13,889	14,136
– Retirement benefit scheme contributions	<u>1,722</u>	<u>2,483</u>
Total staff costs	<u>15,611</u>	<u>16,619</u>

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the Reporting Period attributable to owners of the Company)	<u>5,519</u>	<u>2,148</u>

	Six months ended 30 June	
	2024	2023
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,626,240</u>	<u>1,626,240</u>

No diluted earnings 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 2024 (six months ended 30 June 2023: nil).

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Trade receivables	416,639	348,616
Less: Allowance of credit losses	<u>(8,830)</u>	<u>(8,996)</u>
Trade receivables, net	407,809	339,620
Bills receivable (<i>Note</i>)	<u>5,261</u>	<u>2,915</u>
Trade and bills receivables	<u><u>413,070</u></u>	<u><u>342,535</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 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Less than 6 months	381,138	305,040
More than 6 months, but less than 1 year	18,995	27,528
More than 1 year	<u>7,676</u>	<u>7,052</u>
Trade receivables, net	<u><u>407,809</u></u>	<u><u>339,620</u></u>

As at 30 June 2024, included in trade receivables are amount due from an associate of approximately RMB176,000 (31 December 2023: approximately RMB176,000). 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 other customers with good repayment history. The Group does not obtain collateral from customers.

12. RESTRICTED BANK DEPOSITS AND BALANCES

As at 31 December 2023 and 30 June 2024, the Group's restricted bank deposits and balances were pledged to banks for issuing bills payable.

13. TRADE AND BILLS PAYABLES

	As at 30 June 2024	As at 31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	162,149	132,413
Bills payable	167,814	126,905
	<u> </u>	<u> </u>
Trade and bills payables	329,963	259,318
	<u> </u>	<u> </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 2024	As at 31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Less than 6 months	153,872	124,367
More than 6 months, but less than 1 year	2,478	742
More than 1 year	5,799	7,304
	<u> </u>	<u> </u>
Trade payables	162,149	132,413
	<u> </u>	<u> </u>

As at 30 June 2024, included in trade payables are amount due to an associate of approximately RMB67,682,000 (31 December 2023: approximately RMB44,391,000). The amount due to the associate is unsecured, interest-free and payable according to the relevant purchase agreement.

As at 31 December 2023 and 30 June 2024, 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

All bank borrowings are denominated in functional currency of the group entities. As at 30 June 2024, the Group had interest-bearing bank borrowings amounting to approximately RMB280.0 million (31 December 2023: approximately RMB310.0 million).

As at 30 June 2024, the Group's bank borrowings of approximately RMB170 million (31 December 2023: approximately RMB100 million) carry interest with variable interest rates ranging from 2.50% to 4.00% (31 December 2023: ranging from 3.29% to 4.00%) per annum. All variable-rate bank borrowings are unsecured but guaranteed by group companies (31 December 2023: approximately RMB20 million).

As at 30 June 2024, the Group's bank borrowings of approximately RMB110 million (31 December 2023: approximately RMB210 million) carry interest with fixed interest rates ranging from 2.45% to 3.00% (31 December 2023: ranging from 3.05% to 3.24%) per annum. Fixed-rate bank borrowing of approximately RMB10 million is secured by bills receivables issued and guaranteed by group companies (31 December 2023: approximately RMB110 million was unsecured but guaranteed by group companies) while an amount of approximately RMB100 million was unsecured and unguaranteed (31 December 2023: approximately RMB100 million).

15. SHARE CAPITAL

	As at 30 June 2024 <i>HK\$'000</i> (Unaudited)	As at 31 December 2023 <i>HK\$'000</i> (Audited)
Authorised		
8,000,000,000 ordinary shares of HK\$0.001 each	<u>8,000</u>	<u>8,000</u>
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Issued and fully paid		
1,626,240,000 (as at 31 December 2023: 1,626,240,000) ordinary shares of HK\$0.001 each	<u>1,626</u>	<u>1,626</u>
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (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 RMB256.8 million for the Reporting Period (six months ended 30 June 2023: approximately RMB264.7 million), representing a decrease of approximately 3.0% as compared to the same period in 2023. The gross profit of the Group was approximately RMB34.6 million (six months ended 30 June 2023: approximately RMB26.5 million), representing an increase of approximately 30.4% as compared to the same period in 2023. The Company recorded the profit and total comprehensive income of approximately RMB5.5 million (six months ended 30 June 2023: approximately RMB2.1 million). During the Reporting Period, the basic earnings per share was approximately RMB0.003 (six months ended 30 June 2023: approximately RMB0.001).

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 RMB256.8 million, representing a decrease of approximately 3.0% from approximately RMB264.7 million for the six months ended 30 June 2023.

By product segment, revenue of approximately RMB245.8 million was contributed by the optical fibre cables and optical distribution network devices segment, representing an increase of approximately 7.5% as compared to the same period of 2023 of approximately RMB228.6 million. This accounted for approximately 95.7% (six month ended 30 June 2023: approximately 86.3%) of the Group's total revenue. The increase in revenue was due to the increase in the average unit selling price of the Group's products while the order quantity remained largely stable.

On the other hand, revenue of approximately RMB10.9 million was contributed by prepainted steel sheet segment, representing a decrease of approximately 69.7% as compared to the same period of 2023 of approximately RMB36.2 million. This accounted for approximately 4.3% (six months ended 30 June 2023: approximately 13.7%) of the Group's revenue.

Cost of sales

For the Reporting Period, cost of sales of the Group was approximately RMB222.1 million (six months ended 30 June 2023: approximately RMB238.2 million), representing a decrease of approximately 6.7% as compared to the same period in 2023.

Gross profit and gross profit margin

For the Reporting Period, the Group's gross profit was approximately RMB34.6 million (six months ended 30 June 2023: approximately RMB26.5 million), representing an increase of approximately 30.4% as compared to the same period in 2023. During the Reporting Period, the Group's gross profit margin was approximately 13.5% as compared to a gross profit margin of approximately 10.0% for the six months ended 30 June 2023. Owing to the cost of raw materials (including non-ferrous metals and some other chemical feedstocks) remaining fairly stable, and the increase in the average unit selling price of the Group's products, 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 RMB13.6 million for the six months ended 30 June 2023 has been decreased to approximately RMB9.5 million for the Reporting Period. The decrease was mainly attributable to the decrease in the recognition of net foreign exchange gains during the Reporting Period, and the decrease in the sales of electricity and the gains on the sales of other materials.

Selling and distribution expenses

For the Reporting Period, the Group's selling and distribution expenses were approximately RMB11.1 million (six months ended 30 June 2023: approximately RMB8.4 million), representing an increase of approximately 32.4% as compared to the same period in 2023. The increase was mainly attributable to an increase in the freight unit costs and the development costs for an expansion to other markets.

Administrative expenses

For the Reporting Period, the Group's administrative expenses were approximately RMB17.5 million (six months ended 30 June 2023: approximately RMB18.6 million), representing a decrease of approximately 5.9% as compared to the same period in 2023. The decline was consistent with the Group's overall operations.

Research costs

The Group's research costs were approximately RMB13.4 million for the Reporting Period (six months ended 30 June 2023: approximately RMB20.0 million), representing a decrease of approximately 32.9% as compared to the same period in 2023. The decrease was mainly due to the completion of some product development projects during the Reporting Period.

Finance costs

During the Reporting Period, the Group's finance costs were approximately RMB2.2 million (six months ended 30 June 2023: approximately RMB4.4 million), representing a decrease of approximately 50.5% as compared to the same period in 2023. This was mainly due to a drop in overall bank borrowing rate and the capitalisation of some interests into construction in progress during the Reporting Period. As a result, the finance costs decreased as compared to the same period in 2023.

Share of profit of an associate

During the Reporting Period, the Group recorded a share of profit of an associate of approximately RMB5.2 million, representing a decrease of approximately 33.1% from approximately RMB7.7 million for the six months ended 30 June 2023. 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 RMB1.7 million, representing a decrease of approximately 38.0% from approximately RMB2.7 million for the six months ended 30 June 2023. The joint venture is engaged in the manufacturing and sales of optical fibre preforms.

Income tax expense/credit

During the Reporting Period, the Group recorded income tax expense of approximately RMB2.3 million (six months ended 30 June 2023: income tax credit of approximately RMB2.7 million), mainly represented by the recognition of PRC Enterprise Income Tax paid by the Group.

Profit and total comprehensive income 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 RMB5.5 million (six months ended 30 June 2023: approximately RMB2.1 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 and an amount due to a director.

Cash and loan position

As at 30 June 2024, 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 RMB397.5 million (31 December 2023: approximately RMB432.1 million), representing a decrease of approximately 8.0% as compared to that as at 31 December 2023.

All bank borrowings are denominated in functional currency of the group entities. As at 30 June 2024, the Group had interest-bearing bank borrowings amounting to approximately RMB280.0 million (31 December 2023: approximately RMB310.0 million).

As at 30 June 2024, the Group's bank borrowings of approximately RMB170 million (31 December 2023: approximately RMB100 million) carry interest with variable interest rates ranging from 2.50% to 4.00% (31 December 2023: ranging from 3.29% to 4.00%) per annum. All variable-rate bank borrowings are unsecured but guaranteed by group companies (31 December 2023: approximately RMB20 million).

As at 30 June 2024, the Group's bank borrowings of approximately RMB110 million (31 December 2023: approximately RMB210 million) carry interest with fixed interest rates ranging from 2.45% to 3.00% (31 December 2023: ranging from 3.05% to 3.24%) per annum. Fixed-rate bank borrowing of approximately RMB10 million is secured by bills receivables issued and guaranteed by group companies (31 December 2023: approximately RMB110 million was unsecured but guaranteed by group companies) while an amount of approximately RMB100 million was unsecured and unguaranteed (31 December 2023: approximately RMB100 million).

Charges on the Group's assets

As at 30 June 2024, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totalling approximately RMB185.6 million (31 December 2023: approximately RMB173.8 million) to secure bills payable.

Gearing ratio

As at 30 June 2024, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 85.1% (31 December 2023: approximately 82.5%).

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, 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 2024, 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 2024, the Group has concentration of credit risk because approximately 89.0% (31 December 2023: approximately 89.3%) 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 2024, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB46.7 million (31 December 2023: approximately RMB67.4 million).

Employees and remuneration policies

As at 30 June 2024, the Group had approximately 320 employees (six months ended 30 June 2023: approximately 320). During the Reporting Period, the Group incurred staff costs of approximately RMB15.6 million (six months ended 30 June 2023: approximately RMB16.6 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 from the National Bureau of Statistics of China, the accumulative output of optical fibre cables in the PRC in the first half of 2024 amounted to 129 million fkm, representing a year-on-year decrease of 24.0%. The optical fibre and optical fibre cable industry in the PRC has faced a situation of insufficient orders and a low operating rate, and the main reason was that domestic communications operators reduced their investments in areas such as 5G networks and fiber-to-the-home (FTTH) during the first half of the year, which introduced a stress of shortage of orders to the optical fibre and optical fibre cable industry, resulting in the short-term demand under pressure. However, domestic operators are accelerating the upgrade of their backbone networks. China Mobile has achieved the first large-scale commercial deployment of a 400G all-optical backbone transmission network, while China Telecom has stated that it will complete a nationwide coverage of 400G high-speed all-optical network this year. China Unicom is also actively conducting 400G experimental network verifications. Meanwhile, overseas demand is growing steadily as well. According to market analysis institute CRU Group, global demand for optical fibre and optical fibre cable will maintain a steady growth trend from 2024 to 2028.

Despite the impact of temporary demand fluctuations, the outlook for the development of the optical fibre industry in the second half of 2024 is positive and optimistic, with expectations of continued growth. The development of the optical fibre industry has benefited from the continued deployment of domestic communication networks such as 5G networks and gigabit optical networks, as well as the rapid development of new-generation information technologies such as East-to-West Computing Resource Transfer, cloud computing and artificial intelligence, and the exploration of new businesses. These technological advancements and applications not only enhance the transmission capacity of communication networks, but also continuously drive new demand growth and product upgrades for optical fibre and optical fibre cable. For example, the construction of 5G networks and the upgrade of gigabit optical fibre have driven the continuous rise in market demand, and the total length of optical fibre cable lines has steadily increased. Furthermore, the development of the optical fibre and optical fibre cable industry in the PRC has also been driven by data centres. As the scale and number of data centres continue to expand, the demand for optical fibre networks is also increasing. It is expected that by 2025, the demand for optical fibre and optical fibre cable for data centres in China will reach 120 million fkm, which will bring new market space for the optical fibre and optical fibre cable industry. With the acceleration of the global digital transformation, the continuous growth in demand for optical fibre networks, as well as the in-depth promotion of the national strategy for building China into a cyberpower have given strong impetus to the development of the optical fibre and optical fibre cable industry. Additionally, the development of the optical fibre and optical fibre cable industry has received key support from national industrial policies. China has successively introduced multiple policies to encourage the development and innovation of the optical fibre and optical fibre cable industry, such as the 14th Five-Year Plan for National Informatisation, the 14th Five-Year Plan for Promoting Agricultural and Rural Modernisation and the 14th Five-Year Development Plan for Digital Economy, which provided a clear and broad market prospect for the development of the optical fibre and optical fibre cable industry.

Looking forward to the second half of 2024, the development of the optical fibre and optical fibre cable industry will continue to benefit from technological progress and support from national policies, and is expected to maintain its growth momentum, sustaining good market prospects and development opportunities. Taking into account the impact of the demand for optical fibre cables from telecommunications network operators and non-operators in the PRC market, as well as the subsequent normalisation of the inventory cycles of overseas operators, the demand for optical fibre cables is expected to gradually recover. While stabilising and striving to expand its market share in the optical fibre cable market of telecommunications 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 optimise the product structure, and further strengthen the ability to control raw material prices, thereby strengthening the cost control of the Company and improving the 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 2024 (six months ended 30 June 2023: 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 C1 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 C3 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 2024.

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.

DISPOSAL OF THE SALE SHARES OF THE TARGET COMPANY

On 23 June 2024, Pacific Smart Development Limited (“**Pacific Smart**”) (an indirect wholly-owned subsidiary of the Company) as vendor and Vantone Neo Development Group Co., Ltd. (the “**Purchaser**”) as purchaser entered into a formal sale and purchase agreement (the “**Formal Sale and Purchase Agreement**”), pursuant to which Pacific Smart conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, 8,235,293 class A preferred shares (representing approximately 4.00% shareholding as at the date of the Formal Sale and Purchase Agreement and approximately 3.48% shareholding on a fully-diluted basis) (the “**Sales Shares**”) of Source Photonics Holdings (Cayman) Limited (the “**Target Company**”) at the consideration of US\$21,559,218 (equivalent to approximately RMB156.6 million) (the “**Disposal**”). The Formal Sale and Purchase Agreement superseded the framework agreement dated 26 November 2023 entered into between, among others, Pacific Smart, the Purchaser and the Target Company in respect of the Disposal.

The Disposal constitutes a very substantial disposal of the Company under the Listing Rules and is subject to the approval of the shareholders of the Company at the extraordinary general meeting of the Company to be held on 9 September 2024.

For details of the Disposal, please refer to the Company's announcements dated 4 December 2023 and 28 June 2024, and the Company's circular dated 23 August 2024.

Save and except disclosed above, the Group has no material acquisition or disposal during the Reporting Period.

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 26 September 2024 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, 29 August 2024

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.