



**Nanfang Communication Holdings Limited**

**南方通信控股有限公司**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 1617)**

# **2022** INTERIM REPORT

**SMART LINKS START THE FUTURE**

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Shi Ming (Chief executive officer)  
Ms. Yu Rumin  
Ms. Yu Ruping

### Non-Executive Director

Mr. Yu Jinlai (Chairman)

### Independent Non-Executive Directors

Mr. Wu Wing Kuen  
Mr. Lam Chi Keung  
Mr. Chan Kai Wing

## COMPANY SECRETARY

Ms. Lo Moon Fong

## AUTHORISED REPRESENTATIVES

Mr. Shi Ming  
Ms. Lo Moon Fong

## REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman  
KY1-1111, Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 902, 9/F, Capital Centre  
151 Gloucester Road  
Wan Chai, Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## AUDITOR

BDO Limited

## PRINCIPAL BANKERS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

## SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

## WEBSITE

[www.jsnfgroup.com](http://www.jsnfgroup.com)

## STOCK CODE

1617

## Financial Highlights

For the six months ended 30 June 2022 (the “**Reporting Period**”), 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.

# 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 to 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 to 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 to 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 RMB321.9million (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.

# Management Discussion and Analysis

## FINANCIAL REVIEW (CONTINUED)

### *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 (for the six months ended 30 June 2021: approximately RMB14.8 million), representing an increase of approximately 37.6% compared to 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.

# Management Discussion and Analysis

## FINANCIAL REVIEW (CONTINUED)

### *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 Reporting Period, 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).

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (CONTINUED)

### *Cash and loan position (continued)*

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.



# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES (CONTINUED)

### *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 (six months ended 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.

# Management Discussion and Analysis

## 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.

## Other Information

### 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).

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

As at 30 June 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

#### Interests in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of shares or underlying shares held <sup>(1)</sup>	Approximate % of shareholding
Ms. Yu Rumin <sup>(2)</sup>	Founder of a discretionary trust <sup>(2)</sup>	840,000,000 (L)	56.82
	Interest of spouse <sup>(4)</sup>	41,400,000 (L)	2.80
Mr. Yu Jinlai <sup>(3)</sup>	Beneficiary of a discretionary trust	840,000,000 (L)	56.82
Ms. Yu Ruping <sup>(3)</sup>	Beneficiary of a discretionary trust	840,000,000 (L)	56.82
Mr. Shi Ming <sup>(4)</sup>	Interest of spouse <sup>(4)</sup>	840,000,000 (L)	56.82
	Beneficial owner	41,400,000 (L)	2.80

#### Notes:

- <sup>(1)</sup> The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.
- <sup>(2)</sup> Pacific Mind Development Limited ("**Pacific Mind**") owned 840,000,000 Shares, representing 56.82% of the total number of the issued shares of the Company (the "**Shares**") as at 30 June 2022. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee, holding the entire issued share capital of Pacific Mind for UBS TC (Jersey) Limited ("**Trustee**"). The Trustee is a trustee of a discretionary trust ("**Family Trust**") set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries. Ms. Yu Rumin as founder of the Family Trust is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of Part XV of the SFO.
- <sup>(3)</sup> The Shares were held by Pacific Mind in the capacity of a legal beneficial owner. Since each of Mr. Yu Jinlai and Ms. Yu Ruping is a beneficiary of the Family Trust, each of Mr. Yu Jinlai and Ms. Yu Ruping was deemed to be interested in the shares held by Pacific Mind under the SFO.
- <sup>(4)</sup> Mr. Shi Ming and Ms. Yu Rumin are spouse of each other. Therefore, they are deemed under the SFO to be interested in the Shares held by each other..

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Other Information

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

So far as is known to any Directors or chief executive of the Company, as at 30 June 2022, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

#### Interests in the shares and underlying shares of the Company

Name	Nature of interest	Number of shares or underlying shares held <sup>(1)</sup>	Approximate % of shareholding
Pacific Mind Development Limited <sup>(2)</sup>	Beneficial owner	840,000,000 (L)	56.82
UBS TC (Jersey) Limited <sup>(2)</sup>	Trustee	840,000,000 (L)	56.82
UBS Nominee Limited <sup>(2)</sup>	Interested in controlled corporation	840,000,000 (L)	56.82
Ms. Zhu Qinying <sup>(3)</sup>	Interest of spouse	840,000,000 (L)	56.82
Mr. Yu Jianguang <sup>(4)</sup>	Interest of spouse	840,000,000 (L)	56.82

Notes:

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

<sup>(2)</sup> Pacific Mind owned 840,000,000 Shares, representing 56.82% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee holding the entire issued share capital of Pacific Mind for the Trustee in respect of the Family Trust. The Trustee is a trustee of the Family Trust set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries.

<sup>(3)</sup> Ms. Zhu Qinying is the spouse of Mr. Yu Jinlai and is therefore deemed under the SFO to be interested in the shares held by Mr. Yu Jinlai.

<sup>(4)</sup> Mr. Yu Jianguang is the spouse of Ms. Yu Ruping and is therefore deemed under the SFO to be interested in the shares held by Ms. Yu Ruping.

Save as disclosed above, as at 30 June 2022, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## Other Information

### SHARE OPTION SCHEME

Pursuant to written resolutions passed on 24 November 2016, the Company adopted a share option scheme (the “**Share Option Scheme**”), which is valid for a period of 10 years commencing on 24 November 2016. At the annual general meeting of the Company held on 29 June 2022, the scheme mandate limit of the Share Option Scheme has been refreshed. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

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

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

- (a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to an Eligible Participant under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant is subject to the shareholders’ approval; and
- (b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s ordinary shares at the date of the grant) in excess of HK\$5,000,000, within any twelve-month period, are subject to shareholders’ approval in advance in a general meeting.

## Other Information

### SHARE OPTION SCHEME (CONTINUED)

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

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

### 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 report.

### 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 report. 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 said Model Code during the Reporting Period and up to the date of this report.

### 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.

## Other Information

### CONTINGENT LIABILITIES AND LITIGATION

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

### ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts on the environment by its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with related environmental laws and legislations, and continual improvement on its performance. For details, please refer to the Environmental, Social and Governance Report issued by the Company on 30 May 2022.

### KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivating workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report dated 30 May 2022.

### COMPLIANCE WITH LAWS AND REGULATIONS

During the six months ended 30 June 2022, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

### SIGNIFICANT INVESTMENTS

As at 30 June 2022, the Group held the following significant investments:

1. Jiangsu Nanfang Communication Technology Company Limited\* (江蘇南方通信科技有限公司) ("**Nanfang Communication**"), holds 49% of the shareholding in Jiangsu Nanfang Optic Electric Technology Company Limited\* (江蘇南方光纖科技有限公司) ("**Nanfang Optic**"), and made a total investment of approximately RMB73.5 million up to 30 June 2022. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 30 June 2022 as this is a private company. The investment is intended to be held for a long term. During the Reporting Period, the Group (i) shared a profit of approximately RMB5.7 million; and (ii) did not receive any dividend in respect of its investment in Nanfang Optic.
2. Nanfang Communication also holds 51% of the shareholding in Jiangsu Yingke Optical Material Technology Company Limited\* (江蘇盈科光導科技有限公司) ("**Yingke Optical Material**"), and made a total investment of approximately RMB76.5 million up to 30 June 2022. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 30 June 2022 as this is a private company. The investment is intended to be held for a long term. During the Reporting Period, the Group (i) shared a profit of approximately RMB4.1 million; and (ii) did not receive any dividend in respect of its investment in Yingke Optical Material.

\* For identification purpose only

## Other Information

### SIGNIFICANT INVESTMENTS (CONTINUED)

- Pacific Smart Development Limited, an indirectly non-wholly owned subsidiary of the Company, owned 8,095,527 class A preferred shares of Venus Pearl SPV2 Co Limited, representing approximately 4.59% of its total issued share capital, with a total investment of approximately US\$23 million contributed by the Group up to 30 June 2022. Venus Pearl SPV2 Co Limited is a company incorporated in the Cayman Islands which is principally engaged in investment holding. The fair value of the investment was approximately RMB153,016,000 as at 30 June 2022, representing approximately 9.78% of the total assets of the Group. During the Reporting Period, the Group had not received any dividend or recorded any investment gain/loss. The investment is intended to be a long term investment in view of the positive business synergies to be generated in the long run between the Company and Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity that is wholly owned by Venus Pearl SPV2 Co Limited.

Save as aforesaid, the Company did not hold any other significant investments during the Reporting Period.

### FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group will continue to invest in its development projects and acquire suitable plant and machinery, if it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings. The net proceeds from the global offering and placing of Shares (conducted on 26 November 2021, which was completed on 13 December 2021) have been fully utilised. Save as disclosed in this interim report, the Group did not have any future plans for material investments as at the date of this report.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period and up to the date of this report, 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, ASSOCIATED COMPANIES AND JOINT VENTURES

During the Reporting Period and up to the date of this report, 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 report.

### PUBLICATION OF THE INTERIM REPORT

This interim report is published on the websites of each of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.jsnfgroup.com](http://www.jsnfgroup.com)).

For and on behalf of the Board

**Nanfang Communication Holdings Limited**

**Yu Jinlai**

*Chairman*

Hong Kong, 30 August 2022



## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

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

# Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	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")	17	153,016	153,016
Prepayments for acquiring property, plant and equipment		-	52
Restricted bank deposits and balances	13	1,763	1,763
Bank deposits with original maturity more than three months		118,972	-
Deferred tax assets		29,651	25,414
		<b>613,777</b>	469,154
<b>CURRENT ASSETS</b>			
Inventories		48,529	45,112
Trade and bills receivables	12	501,591	374,167
Prepayments, deposits and other receivables		11,239	34,048
Tax recoverables		-	2,944
Restricted bank deposits and balances	13	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
		<b>951,041</b>	890,440
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	14	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	15	301,109	250,286
Tax payables		21,806	22,036
		<b>796,138</b>	569,987
<b>NET CURRENT ASSETS</b>		<b>154,903</b>	320,453
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>768,680</b>	789,607

# Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	<i>Note</i>	<b>As at 30 June 2022 RMB'000 (Unaudited)</b>	As at 31 December 2021 RMB'000 (Audited)
<b>CAPITAL AND RESERVES</b>			
Share capital	16	<b>1,291</b>	1,291
Reserves		<b>746,227</b>	765,817
Equity attributable to owners of the Company		<b>747,518</b>	767,108
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>5,340</b>	6,267
Deferred income – government grants		<b>15,431</b>	15,665
Lease liabilities		<b>391</b>	567
		<b>21,162</b>	22,499
		<b>768,680</b>	789,607

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the Company						Non-controlling interest	Total
	Share capital	Share premium	Other reserve <i>(Note (b))</i>	Surplus reserve <i>(Note (a))</i>	Retained profits	Sub-Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended</b>								
<b>30 June 2022 (Unaudited)</b>								
As at 1 January 2022 (Audited)	1,291	284,959	113,295	68,928	298,635	767,108	-	767,108
Appropriation for the period	-	-	-	4,367	(4,367)	-	-	-
Loss and total comprehensive expense for the period	-	-	-	-	(19,590)	(19,590)	-	(19,590)
As at 30 June 2022 (Unaudited)	<u>1,291</u>	<u>284,959</u>	<u>113,295</u>	<u>73,295</u>	<u>274,678</u>	<u>747,518</u>	<u>-</u>	<u>747,518</u>
<b>For the six months ended</b>								
<b>30 June 2021 (Unaudited)</b>								
As at 1 January 2021 (Audited)	997	214,255	113,295	67,607	359,695	755,849	151	756,000
Loss and total comprehensive expense for the period	-	-	-	-	(36,823)	(36,823)	-	(36,823)
Shares issued upon the exercise of share options	93	46,392	-	-	-	46,485	-	46,485
As at 30 June 2021 (Unaudited)	<u>1,090</u>	<u>260,647</u>	<u>113,295</u>	<u>67,607</u>	<u>322,872</u>	<u>765,511</u>	<u>151</u>	<u>765,662</u>

Notes:

- (a) As stipulated by the relevant laws and regulations, the Company's subsidiaries in the People's Republic of China (the "PRC") are required to maintain a statutory surplus reserve which is non-distributable. Appropriations to such reserve is made out of net profit after tax of the financial statements of these subsidiaries while the amounts and allocation basis are decided by their boards of directors annually, until the reserve balance reaches 50% of their registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these subsidiaries, provided that such fund is maintained at a minimum of 25% of their registered capital.
- (b) Pursuant to deeds dated 29 September 2016, shareholders of the Company's ultimate holding company agreed to waive and release all repayment obligations in respect of the amounts of United States Dollars ("US\$") 500,000 and Hong Kong Dollars ("HK\$") 128,200,000 (equivalent to RMB113,295,000 in aggregate) advanced by them to Century Planet Limited, the Company's direct wholly owned subsidiary, for paying up the registered capital of its indirect wholly owned subsidiary, MacroSmart Investment Limited.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>30,991</b>	(12,323)
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment and right-of-use assets	<b>(15,925)</b>	(2,113)
Increase in bank deposits with original maturity more than three months, net	<b>(118,972)</b>	(1,925)
(Placement of)/withdrawal of restricted bank deposits and balances, net	<b>(737)</b>	110
Interests received	<b>13,398</b>	4,888
Government grants received	<b>398</b>	281
<b>NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES</b>	<b>(121,838)</b>	1,241
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	<b>251,199</b>	150,000
Repayments of bank borrowings	<b>(199,635)</b>	(66,902)
Payment of interest expense on bank borrowings	<b>(5,124)</b>	(5,546)
Payment of lease liabilities	<b>(183)</b>	(433)
Proceeds from shares issued upon exercise of share options	<b>-</b>	31,551
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>46,257</b>	108,670
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(44,590)</b>	97,588
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>372,106</b>	207,249
Effect of exchange rate changes on the balance of cash held in foreign currencies	<b>(634)</b>	(772)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		
Represented by:		
Bank balances and cash	<b>326,882</b>	304,065

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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

Amendments to IAS 37  
Annual Improvements to IFRS 3  
Amendments to AG 5

Annual Improvements to IFRS 2018-2020  
Property, Plant and Equipment – Proceeds before Intended Use  
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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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 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.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

### 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 of financial assets at 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:

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



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 4. SEGMENT INFORMATION (CONTINUED)

	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	12,052	–	12,052

### 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 RMB'000 (Unaudited)	2021 RMB'000 (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
Other income, gains, expenses and losses, net	9,285	8,822

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

### 6. FINANCE COSTS

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

### 7. INCOME TAX CREDIT

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
PRC Enterprise Income Tax ("EIT")		
– Current tax	(5)	(4)
– Deferred tax	<u>6,328</u>	<u>5,796</u>
Income tax credit	<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%).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 8. LOSS BEFORE TAX

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

## 9. LOSS PER SHARE

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 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. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment of approximately RMB15.9 million (six months ended 30 June 2021: approximately RMB2.1 million).

## 12. TRADE AND BILLS RECEIVABLES

	<b>As at 30 June 2022 RMB'000 (Unaudited)</b>	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	<b>507,209</b>	381,069
Less: allowance of credit losses	<b>(10,175)</b>	(9,111)
Trade receivables, net	<b>497,034</b>	371,958
Bills receivable <i>(Note)</i>	<b>4,557</b>	2,209
Trade and bills receivables	<b>501,591</b>	374,167

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 12. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	<b>As at 30 June 2022 RMB'000 (Unaudited)</b>	As at 31 December 2021 RMB'000 (Audited)
Less than 6 months	<b>475,331</b>	354,381
More than 6 months, but less than 1 year	<b>18,865</b>	11,343
More than 1 year	<b>2,838</b>	6,234
Trade receivables, net	<b>497,034</b>	371,958

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.

## 13. 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.

## 14. TRADE AND BILLS PAYABLES

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 14. TRADE AND BILLS PAYABLES (CONTINUED)

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

	<b>As at 30 June 2022 RMB'000 (Unaudited)</b>	As at 31 December 2021 RMB'000 (Audited)
Less than 6 months	<b>201,417</b>	108,138
More than 6 months, but less than 1 year	<b>37,911</b>	1,756
More than 1 year	<b>7,266</b>	2,598
	<b>246,594</b>	112,492
Trade payables	<b>246,594</b>	112,492

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.

## 15. 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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 16. SHARE CAPITAL

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

## 17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value of the Group's financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and input used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value measurement

	As at 30 June 2022 (Unaudited)		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Financial asset at FVTPL</b>			
Unlisted equity investment	-	-	<b>153,016</b>
	<hr/>	<hr/>	<hr/>
	As at 31 December 2021 (Audited)		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Financial asset at FVTPL</b>			
Unlisted equity investment	-	-	153,016
	<hr/>	<hr/>	<hr/>

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Opening balance	<b>153,016</b>	-
Transfer in	-	151,599
Change in fair value of financial assets at FVTPL	-	1,417
	<hr/>	<hr/>
Closing Balance	<b>153,016</b>	153,016
	<hr/>	<hr/>

### Transfer between Level 1 and Level 3

There were no transfers into or out of Level 3 of fair value hierarchy during the six months ended 30 June 2022 (31 December 2021: due to change in market condition, quoted prices in active markets were no longer available for the unlisted equity investment. Therefore, the unlisted equity instrument was transferred from Level 1 to Level 3 of the fair value hierarchy).

Level 3 instrument comprises financial assets at FVTPL which are not traded in an active market and their valuation was undertaken by APAC Appraisal and Consulting Limited, an independent qualified professional valuer. Market approach was used to determine the underlying equity value of the Company and guideline public company method model were adopted to determine the fair value of the financial assets at FVTPL as at 31 December 2021. Since there was no significant change in market condition or the performance and operation of the investment, no change in fair value was recognised for the six months ended 30 June 2022.



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 18. CAPITAL COMMITMENTS

	<b>As at 30 June 2022 RMB'000 (Unaudited)</b>	As at 31 December 2021 RMB'000 (Audited)
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	<b>6,560</b>	–

## 19. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period:

	<b>Six months ended 30 June</b>	
	<b>2022 RMB'000 (Unaudited)</b>	2021 RMB'000 (Unaudited)
Sales of other materials to an associate	<b>2,683</b>	2,108
Purchases of optical fibre and other materials from an associate	<b>98,405</b>	46,876

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

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

	<b>Six months ended 30 June</b>	
	<b>2022 RMB'000 (Unaudited)</b>	2021 RMB'000 (Unaudited)
Salaries, wages and allowances	<b>1,844</b>	2,744
Retirement benefits scheme contributions	<b>134</b>	237
	<b>1,978</b>	2,981