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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHTS

For the year ended 31 December 2022, the Group's operating results were as follows:

- Total revenue increased by approximately 44.6% to approximately RMB633.7 million (2021: approximately RMB438.3 million)
- Gross profit increased by approximately 343.0% to approximately RMB57.4 million (2021: approximately RMB13.0 million)
- Gross profit margin increased by approximately 206.4% to approximately 9.1% (2021: approximately 3.0%)
- Loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB8.1 million (2021: approximately RMB59.9 million)
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil)

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 audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	3	633,705	438,317
Cost of sales		<u>(576,341)</u>	<u>(425,367)</u>
Gross profit		57,364	12,950
Other income, gains, expenses and losses, net	5	29,489	23,000
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		(1,253)	(3,084)
Changes in fair value of financial assets at fair value through profit or loss (“ FVTPL ”)		–	1,417
Selling and distribution expenses		(19,596)	(18,017)
Administrative expenses		(45,902)	(53,425)
Research costs		(38,911)	(28,960)
Finance costs	6	(7,689)	(8,610)
Share of profit of an associate		11,551	77
Share of profit of a joint venture		<u>9,179</u>	<u>4,579</u>
Loss before income tax	8	(5,768)	(70,073)
Income tax (expense)/credit	7	<u>(2,335)</u>	<u>10,183</u>
Loss and total comprehensive expense for the year		<u>(8,103)</u>	<u>(59,890)</u>
Loss per share	9	<u>RMB(0.01)</u>	<u>RMB(0.05)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		At 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		81,721	85,565
Right-of-use assets		48,773	29,480
Interest in an associate		103,303	89,240
Interest in a joint venture		85,003	84,624
Financial assets at FVTPL		167,150	153,016
Prepayments for acquiring property, plant and equipment		–	52
Restricted bank deposits and balances	11	107,000	1,763
Bank deposits with original maturity more than three months	11	10,500	–
Deferred tax assets		30,971	25,414
		634,421	469,154
CURRENT ASSETS			
Inventories		56,344	45,112
Trade and bills receivables	10	423,794	374,167
Prepayments, deposits and other receivables		48,203	34,048
Tax recoverables		–	2,944
Restricted bank deposits and balances	11	67,292	62,063
Bank deposits with original maturity more than three months	11	24,288	106,467
Bank deposits, bank balances and cash	11	229,931	265,639
		849,852	890,440

		At 31 December	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	318,186	207,063
Other payables		42,232	60,171
Loan from a joint venture		20,229	29,235
Contract liabilities		2,946	852
Lease liabilities		355	344
Bank borrowings	13	256,562	250,286
Tax payables		23,400	22,036
		<u>663,910</u>	<u>569,987</u>
NET CURRENT ASSETS		<u>185,942</u>	<u>320,453</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>820,363</u>	<u>789,607</u>
CAPITAL AND RESERVES			
Share capital	14	1,418	1,291
Reserves		771,432	765,817
Equity attributable to owners of the Company		<u>772,850</u>	<u>767,108</u>
NON-CURRENT LIABILITIES			
Bank borrowings	13	20,000	–
Deferred tax liabilities		12,102	6,267
Deferred income – government grants		15,199	15,665
Lease liabilities		212	567
		<u>47,513</u>	<u>22,499</u>
		<u>820,363</u>	<u>789,607</u>

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 10 May 2016. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is 1 Cencun Road, Luoyang Town, Wujin District, Changzhou City, Jiangsu Province, the People's Republic of China (the "PRC"). The Company is an investment holding company and, through its operating subsidiaries, is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network devices, as well as processing and sales of prepainted steel sheet.

The Company's immediate and ultimate holding company is Pacific Mind Development Limited, a company incorporated in the British Virgin Islands.

The consolidated financial statements of the Group are presented in Renminbi ("RMB"). In the opinion of the Directors, the functional currency of companies comprising the Group is RMB.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IAS 16	Proceeds before Intended Use
Amendments to IAS 37	Onerous contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to Conceptual Framework
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

None of these new or amended IFRSs has a material impact on the Group's results and financial position for the current or prior period.

New and amendments to IFRSs in issue but not yet effective

The following new or amended IFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

IFRS 17	Insurance Contracts ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to IFRS 16	Lease liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2024.

³ The amendments shall be applied prospectively to the sale or combination of assets occurring in annual periods beginning on or after a date to be determined.

IFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4, Insurance Contracts. The standard outlines a "General Model", which is modified for insurance contracts with direct participation features, described as the "Variable Fee Approach". The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the concept of changes in accounting estimates in the Standard was retained with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Amendments to IAS 12, Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. An entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Amendments to IFRS 16, Lease liability in a Sale and Leaseback

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e. 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1, Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the Reporting Period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the Reporting Period. The amendments also introduce a definition of “settlement” to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

3. REVENUE

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 as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Optical fibre cables	542,636	345,470
Optical distribution network devices	27,295	11,284
Prepainted steel sheet	63,774	81,563
	<u>633,705</u>	<u>438,317</u>

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.

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 devices 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 of an associate and 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 prepainted steel sheet		Group	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2022	2021	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>569,931</u>	<u>356,754</u>	<u>63,774</u>	<u>81,563</u>	<u>633,705</u>	<u>438,317</u>
Gross profit/(loss)	<u>58,553</u>	<u>18,628</u>	<u>(1,189)</u>	<u>(5,678)</u>	<u>57,364</u>	<u>12,950</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

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	6,969	8,155
Foreign exchange gains, net	10,731	5,591
Sale of electricity and gain on sales of other materials	9,462	5,333
Government grants recognised (<i>Note</i>)	1,883	3,937
Loss on disposal of property, plant and equipment	(9)	–
Others	453	(16)
	<u>29,489</u>	<u>23,000</u>
Other income, gains, expenses and losses, net	<u>29,489</u>	<u>23,000</u>

Note: The government grants recognised included the release of deferred income of approximately RMB466,000 (2021: approximately RMB650,000) during the year. As at 31 December 2022 and 2021, there were no unfulfilled conditions or other contingencies attaching to the government grant that had been recognised by the Group.

6. FINANCE COSTS

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings	7,667	8,587
Interest on lease liabilities	22	23
	<u>7,689</u>	<u>8,610</u>
Finance costs	<u>7,689</u>	<u>8,610</u>

7. INCOME TAX EXPENSE/CREDIT

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
PRC Enterprise Income Tax (“EIT”)	(2,057)	(1,382)
Deferred tax	<u>(278)</u>	<u>11,565</u>
Income tax (expense)/credit	<u><u>(2,335)</u></u>	<u><u>10,183</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 year (2021: nil).

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, Jiangsu Nanfang Communication Technology Company Limited (“Nanfang Communication”) and Jiangsu Yingke Communication Technology Company Limited (“Yingke”), subsidiaries of the Company, are recognised as “High and New Technology Enterprise” and it has been extended for a three-year-period in 2022. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the year (2021: 15%).

8. LOSS BEFORE INCOME TAX

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cost of inventories recognised as cost of sales	<u>576,341</u>	<u>425,367</u>
Loss before income tax has been arrived at after charging:		
Depreciation of property, plant and equipment	11,571	14,501
Less: depreciation capitalised in inventories	<u>(9,101)</u>	<u>(11,105)</u>
Depreciation recognised as cost of sales	<u>2,470</u>	<u>3,396</u>
Depreciation of right-of-use assets	983	1,219
Auditor’s remuneration	650	650
Staff costs (including the directors’ remuneration):		
– Salaries, wages and allowances	32,232	32,379
– Retirement benefit scheme contributions	3,575	3,191
– Equity-settled share-based payment expenses	<u>741</u>	<u>14,934</u>
Total staff costs	<u><u>36,548</u></u>	<u><u>50,504</u></u>

9. LOSS PER SHARE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Loss		
Loss for the purpose of basic earnings per share		
(Loss for the year attributable to owners of the Company)	<u>(8,103)</u>	<u>(59,890)</u>

	Year ended 31 December	
	2022	2021
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,543,207</u>	<u>1,195,424</u>

No diluted earnings per share is presented as there is no potential ordinary shares outstanding for both years.

10. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	430,437	381,069
Less: Allowance of credit losses	<u>(6,643)</u>	<u>(9,111)</u>
Trade receivable, net	423,794	371,958
Bills receivable (<i>Note</i>)	<u>–</u>	<u>2,209</u>
Trade and bills receivables	<u>423,794</u>	<u>374,167</u>

Note: At as 31 December 2021, the Group's bills receivable were issued by banks and customers with maturity within six months.

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

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Less than 6 months	404,550	354,381
More than 6 months, but less than 1 year	10,989	11,343
More than 1 year	8,255	6,234
	<hr/>	<hr/>
Trade receivables, net	<u>423,794</u>	<u>371,958</u>

For the year ended 31 December 2022, 88.9% (2021: 95.2%) of the Group's sales of optical fibre cables, optical distribution network devices and other materials were made to the four state-owned telecommunication network operators in the PRC (the "**Major PRC Telecommunications Network Operators**") and the remainder was made to other third parties. 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 Telecommunications 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.

11. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS, RESTRICTED BANK DEPOSITS AND BALANCES, BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 3.55% per annum (2021: ranging from 0.3% to 4.2% per annum) at the end of the Reporting Period.

As at 31 December 2022, bank deposits with original maturity more than three months amounting to approximately RMB34,788,000 (2021: approximately RMB106,467,000) are due for withdrawal from January 2023 to April 2025 (2021: January 2022).

As at 31 December 2022, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits and balances totalling approximately RMB174,292,000 (2021: approximately RMB51,147,000) to secure bank borrowings, bills payable and a letter of guarantee issued by a bank.

12. TRADE AND BILLS PAYABLES

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	154,535	112,492
Bills payable	<u>163,651</u>	<u>94,571</u>
Trade and bills payables	<u><u>318,186</u></u>	<u><u>207,063</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 ageing analysis of trade payables, presented based on the invoice date:

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 6 months	149,622	108,138
More than 6 months, but less than 1 year	1,924	1,756
More than 1 year	<u>2,989</u>	<u>2,598</u>
Trade payables	<u><u>154,535</u></u>	<u><u>112,492</u></u>

At the end of the Reporting Period, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's certain restricted bank deposits and balances.

13. BANK BORROWINGS

	At 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Secured and guaranteed bank borrowing	96,498	40,286
Unsecured and guaranteed bank borrowings	<u>180,064</u>	<u>210,000</u>
Bank borrowings	<u><u>276,562</u></u>	<u><u>250,286</u></u>

14. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary share of HK\$0.001 each		
Authorised:		
At 1 January 2021, 31 December 2021 and 2022	<u>8,000,000</u>	<u>8,000</u>
Issued and fully paid:		
At 1 January 2021	1,120,000	1,120
Shares issued upon the exercise of share options (<i>note a</i>)	112,000	112
Share issued upon placement (<i>note b</i>)	<u>246,400</u>	<u>246</u>
At 31 December 2021 and 1 January 2022	<u>1,478,400</u>	<u>1,478</u>
Shares issued upon the exercise of share options (<i>note c</i>)	<u>147,840</u>	<u>148</u>
At 31 December 2022	<u>1,626,240</u>	<u>1,626</u>
Presented in the consolidated financial statements as		
		<i>RMB'000</i>
At 1 January 2021		997
Shares issued upon the exercise of share options (<i>note a</i>)		93
Share issued upon placement (<i>note b</i>)		<u>201</u>
At 31 December 2021 and 1 January 2022		<u>1,291</u>
Shares issued upon the exercise of share options (<i>note c</i>)		<u>127</u>
At 31 December 2022		<u>1,418</u>

Notes:

- (a) On 11 June 2021, share options were exercised by the subscribers for 112,000,000 ordinary shares of the Company at a consideration of approximately RMB31,551,000 of which approximately RMB93,000 was credited to share capital and approximately RMB31,458,000 was credited to the share premium account. As a result of the exercise of share options, share option reserve of approximately RMB14,934,000 has been transferred to share premium account.
- (b) On 26 November 2021, the Company entered into a placing agreement (the “**Placing Agreement**”) with a placing agent, to procure not less than six placees who are independent third parties to the Company to subscribe 246,400,000 placing shares at the placing price of HK\$0.125 per placing share (the “**Placing**”). All conditions of the Placing Agreement were fulfilled. The Placing was completed and fully subscribed on 13 December 2021. The gross proceeds from the Placing amounted to approximately HK\$30,800,000 (equivalent to approximately RMB25,144,000) and related directly attributable expenses were approximately HK\$772,000 (equivalent to approximately RMB631,000).
- (c) On 25 July 2022, share options were exercised by the subscribers for 147,840,000 ordinary shares of the Company at a consideration of approximately RMB13,104,000 of which approximately RMB127,000 was credited to share capital and approximately RMB12,977,000 was credited to the share premium account. As a result of the exercise of share options, share option reserve of approximately RMB741,000 has been transferred to share premium account.

15. DIVIDENDS

The Directors have resolved not to declare a final dividend for the year ended 31 December 2022 (2021: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading telecommunication manufacturer in the PRC. For the year ended 31 December 2022, the Group recorded an increase of total revenue by 44.6% to approximately RMB633.7 million (2021: approximately RMB438.3 million).

During the year ended 31 December 2022, the gross profit of the Group was approximately RMB57.4 million (2021: approximately RMB13.0 million), representing a significant increment of approximately 343.0%.

During the year ended 31 December 2022, the Company reported a loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB8.1 million (2021: approximately RMB59.9 million).

During the year ended 31 December 2022, the Company's basic loss per share was approximately RMB0.01 (2021: approximately RMB0.05).

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

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 year ended 31 December 2022, the Group's total revenue was approximately RMB633.7 million, representing an increase of 44.6% from approximately RMB438.3 million for the year ended 31 December 2021.

By product segment, revenue of approximately RMB569.9 million was contributed by the optical fibre cables and optical distribution network devices segment, representing an increase of approximately 59.8% as compared to 2021 of approximately RMB356.8 million. This accounted for 89.9% (2021: 81.4%) of the Group's revenue.

On the other hand, revenue of approximately RMB63.8 million was contributed by prepainted steel sheet segment, representing a decrease of approximately 21.8% as compared to 2021 of approximately RMB81.5 million. This accounted for 10.1% (2021: 18.6%) of the Group's revenue.

Cost of sales

For the year ended 31 December 2022, the cost of sales of the Group amounted to approximately RMB576.3 million, representing an increase of approximately 35.5% from approximately RMB425.4 million for the year ended 31 December 2021.

Gross profit and gross profit margin

Gross profit of the Group increased by approximately 343.0% to approximately RMB57.4 million for the year ended 31 December 2022 from approximately RMB13.0 million for the same period in 2021. During the Reporting Period, the Group's gross profit margin was approximately 9.1% as compared to a gross profit margin of approximately 3.0% for the year ended 31 December 2021. There was an overall increase in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have increased. Coupled with the strict control over the cost of production, it resulted in a multiplication on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB29.5 million for the year ended 31 December 2022 as compared to approximately RMB23.0 million for the same period in 2021. The increase was mainly attributable to the recognition of larger net foreign exchange gains and other sales income during the Reporting Period.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.6 million for the year ended 31 December 2022 which has increased by approximately 8.8% compared to approximately RMB18.0 million for the same period in 2021. The Group scaled up its operations during the Reporting Period, and this led to an increase in transportation expenses.

Administrative expenses

The Group's administrative expenses decreased by approximately 14.1% to approximately RMB45.9 million for the year ended 31 December 2022 from approximately RMB53.4 million for the year ended 31 December 2021. The decrease was mainly due to an equity-settled share-based payment expenses amounting to approximately RMB0.7 million for the year ended 31 December 2022, whereas such expenses of approximately RMB14.9 million was recorded in the previous year.

Research costs

The Group's research costs rose by approximately 34.4% to approximately RMB38.9 million for the year ended 31 December 2022 from approximately RMB29.0 million for the year ended 31 December 2021. The increase was mainly attributable to the deployment of more resources to enhance product quality and structural transformation as well as development of new products.

Finance costs

During the year ended 31 December 2022, the Group's finance costs decreased by approximately 10.7% to approximately RMB7.7 million from approximately RMB8.6 million for the year ended 31 December in 2021. This was mainly due to the interest rate of the bank borrowings dropped. As a result, the finance costs decreased as compared with same period in 2021.

Share of profit of an associate

During the year ended 31 December 2022, the Group recorded a share of profit of an associate of approximately RMB11.6 million, representing an increase of approximately 149 times from approximately RMB0.1 million for the year ended 31 December 2021. The associate is engaged in the manufacturing and sales of optical fibre.

Share of profit of a joint venture

During the year ended 31 December 2022, the Group recorded a share of profit of a joint venture of approximately RMB9.2 million, representing an increase of approximately 100.5% from approximately RMB4.6 million for the year ended 31 December 2021. The joint venture is engaged in the manufacturing and sale of optical fibre preforms.

Income tax expense/credit

During the year ended 31 December 2022, the Group incurred an income tax expense of approximately RMB2.3 million as compared to an income tax credit of approximately RMB10.2 million recorded for the year ended 31 December 2021. The change was due to additional tax provision for deferred tax liabilities arising from probable distributable profits of subsidiaries.

Loss and total comprehensive expense attributable to owners of the Company

As a result of the foregoing, the Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB8.1 million for the year ended 31 December 2022 as compared to approximately RMB59.9 million for the same period in 2021.

Liquidity, financial and capital resources

During the year ended 31 December 2022, 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 31 December 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 RMB439.0 million (2021: approximately RMB435.9 million), representing an increase of approximately 0.7% as compared to that as at 31 December 2021.

As at 31 December 2022, the Group has interest-bearing bank borrowings amounted to approximately RMB276.6 million (2021: approximately RMB250.3 million) and loan from a joint venture of approximately RMB20.2 million (2021: approximately RMB29.2 million).

All interest-bearing bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a bank borrowing of approximately RMB96.5 million which was secured by certain bank deposits of the Group (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 after one year and denominated in Euro. The Group's bank borrowings of RMB206.5 million (2021: RMB180.0 million) carry fixed interest rates at rates range from 1.0% to 3.3% per annum (2021: range from 3.28% to 3.45% per annum). The bank borrowings of approximately RMB70.1 million (2021: approximately RMB70.3 million) carry variable market interest rates ranging from 3.25% to 3.30% per annum (2021: ranging from 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 31 December 2022, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB174.3 million (2021: approximately RMB51.1 million) to secure bank borrowings, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 31 December 2022, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 92.1% (2021: approximately 77.2%).

Currency risk

While the Group's operations were principally conducted in the PRC during the year ended 31 December 2022 and it mainly recorded sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate. The Directors have managed the foreign currency risk by closely monitoring the movement of the foreign currency rate.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, loan from a joint venture, lease liabilities and fixed rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial instruments, mainly, restricted bank balances, bank balances and variable rate bank borrowings which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

Credit risk

As at 31 December 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 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 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.

The Group has concentration of credit risk because approximately 88.9% (2021: approximately 83.8%) of trade receivables as at 31 December 2022 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 positions 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 31 December 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 RMB122.7 million (2021: nil).

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 announcement, the Group does not have any future plans for material investments as at the date of this announcement.

Employees, remuneration policies and Share Option Scheme

As at 31 December 2022, the Group had approximately 320 employees (2021: approximately 320). For the Reporting Period, the Group incurred staff costs of approximately RMB36.5 million (2021: approximately RMB50.5 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

During the Reporting Period, the Company granted share options pursuant to the share option scheme. The details are as follows:

Date of grant	Name or Category of grantee	Number of options and awards granted	Vesting period	Exercise price	Closing price of the Shares immediately before the date of grant	Date of exercise	Closing price of the shares immediately before the date of exercise
11 July 2022	Employees	103,488,000 share options	N/A	HK\$0.103	HK\$0.103	25 July 2022	HK\$0.106
11 July 2022	Mr. Shi Ming, executive Director and chief executive officer	14,784,000 share options	N/A	HK\$0.103	HK\$0.103	25 July 2022	HK\$0.106
11 July 2022	Ms. Yu Rumin, executive Director	14,784,000 share options	N/A	HK\$0.103	HK\$0.103	25 July 2022	HK\$0.106
11 July 2022	Ms. Yu Ruping, executive Director	14,784,000 share options	N/A	HK\$0.103	HK\$0.103	25 July 2022	HK\$0.106

During the Reporting Period, no share options and/or awards have been cancelled or lapsed. On 1 January 2022, the scheme mandate limit for the share option scheme was 147,840,000 Shares, which has been fully utilised as at 31 December 2022.

As at 31 December 2022, there is no outstanding share options to be exercised for Shares.

Equity-settled share-based payment expenses of approximately RMB741,000 (2021: approximately RMB14,934,000) were recognised during the Reporting Period.

OUTLOOK

According to the data published by the National Bureau of Statistics of China, the accumulative output of optical fibre cables in the PRC in 2022 amounted to approximately 346 million fkm, representing a year-on-year increase of approximately 6.6%. Thanks to the construction plans of 5G and gigabit optical fibre networks, the market demand was still growing, but the compound growth rate slowed down. In 2022, the global optical communication market was driven by applications in various industries including 5G, cloud computing, data centres, and Fibre To The Home (FTTH). As a result, the demand for optical fibre and optical fibre cables grew in many regions. The growth rates in emerging markets including Europe, South Asia, ASEAN, and Latin America are expected to reach more than 5%.

In February 2023, the Central Committee of the Communist Party of China and the State Council issued the “Plan for the Overall Layout of Building a Digital China” (referred hereafter as the “**Plan**”). The Plan points out that building a digital China is an important engine for promoting Chinese-style modernization in the digital age. By 2025, the bases of a strongly coordinated integrated system that is horizontally and vertically linked should be formed, and the building of a digital China should see major progress. By 2035, China’s level of digital development should rank among that of the world’s leading nations.

At present, the global macro economy still faces risks. The development of the optical fibre and optical fibre cables industry is highly correlated with the amount and extent of investment made by telecommunications operators. However, building a digital China and the development of the digital economy are inseparable from the main arteries of infrastructure. As underlying infrastructure, optical fibre and optical fibre cables have entered a new cycle and the optical fibre and optical fibre cables industry see new opportunities for development. Optical fibre and optical fibre cables are an indispensable underlying infrastructure for expediting the synergistic construction of 5G networks and gigabit optical fibre networks. The Group will continue to seek opportunities for consolidation on the optical fibre and optical fibre cables industry chain, optimize the industry structure, seize opportunities for development in the communication market, promote the rapid development and breakthrough of optical devices and other businesses, and explore and strengthen new models of horizontal cooperation in the industry. We will also enhance our ability to control the price of raw materials, thereby strengthening the Company’s cost control and thus its competitiveness and profitability. While centering around the communication industry and expanding into relevant and diversified businesses as well as international businesses, the Group will pursue to explore new business growth points and adjust the business structure and market structure of our prepainted sheet products business. While striving to grow in a stable manner in traditional markets, the Group will look for breakthroughs in new energy vehicles, manufacturing of high-end equipment, aerospace and other industries to complement the Group’s sustainable and stable development.

However, as the Russia-Ukraine war continues, there remain uncertainties in the price trends of bulk raw materials and non-ferrous metals, as well as in the stability of logistics. Under the current market environment, optical fibre and optical fibre cables companies still encounter challenges and uncertainties in their operations. The Group will stay alert to the development of the matters mentioned above, continue to assess their impacts on the Group and take necessary measures to mitigate these impacts on our business. The Group will also endeavor to improve our competitiveness and market share with a view to generating sustainable rewards for our shareholders.

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 year ended 31 December 2022.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the “**AGM**”) will be held on 26 June 2023 (Monday) and the Notice of AGM will be published and despatched in the manner as required by the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and believes that good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the management transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the applicable code provisions as set out in the CG Code during the year ended 31 December 2022. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding securities transactions by the Directors. The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the year ended 31 December 2022 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 (appointed with effect from 12 December 2022 after the resignation of Mr. Lam Chi Keung effected from 12 December 2022 who was also a member immediately before his resignation). Mr. Chan Kai Wing is the chairman of the Audit Committee.

The Audit Committee had, together with the management of the Company and external independent auditor, reviewed the Group’s consolidated financial statements for the year ended 31 December 2022 and this results announcement, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosures thereof.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “**Remuneration Committee**”) consists of one executive Director and two independent non-executive Directors, namely Ms. Yu Rumin, Mr. Chan Kai Wing and Mr. Wu Wing Kuen. Mr. Wu Wing Kuen is the chairman of the Remuneration Committee. The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive directors and the senior management of the Group and other related matters.

NOMINATION COMMITTEE

The nomination committee of the Company (the “**Nomination Committee**”) consists of one non-executive Director and two independent non-executive Directors, namely, Mr. Yu Jinlai, Mr. Chan Kai Wing, and Mr. Liu Cheng Yi (appointed with effect from 12 December 2022 after the resignation of Mr. Lam Chi Keung effected from 12 December 2022 who was also a member immediately before his resignation). Mr. Yu Jinlai is the chairman of the Nomination Committee. The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive directors and to consider the qualifications of the retiring directors standing for election at annual general meetings.

CLOSURE OF BOOK FOR REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from 20 June 2023 (Tuesday) to 26 June 2023 (Monday) (both days inclusive), during which period no transfer of shares of the Company will be effected. To qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 19 June 2023 (Monday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com). The Company's 2022 annual report will be despatched to the Company's shareholders on or before 27 April 2023 (Thursday) and will be available at the websites of each of the Stock Exchange and the Company.

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

Hong Kong, 30 March 2023

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