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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 2023

HIGHLIGHTS

For the year ended 31 December 2023, the Group's operating results were as follows:

- Total revenue decreased by approximately 17.6% to approximately RMB522.3 million (2022: approximately RMB633.7 million)
- Gross profit increased by approximately 23.2% to approximately RMB70.7 million (2022: approximately RMB57.4 million)
- Gross profit margin increased by approximately 49.5% to approximately 13.5% (2022: approximately 9.1%)
- Profit and total comprehensive income for the year attributable to owners of the Company amounted to approximately RMB5.2 million (2022: Loss and total comprehensive expense of approximately RMB8.1 million)
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: 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 2023 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	3	522,261	633,705
Cost of sales		<u>(451,588)</u>	<u>(576,341)</u>
Gross profit		70,673	57,364
Other income, gains, expenses and losses, net	5	17,018	29,489
Impairment losses on trade and other receivables under expected credit loss model, net of reversal		(2,451)	(1,253)
Changes in fair value of financial assets at fair value through profit or loss (“ FVTPL ”)		(13,029)	–
Selling and distribution expenses		(19,491)	(19,596)
Administrative expenses		(35,323)	(45,902)
Research costs		(33,884)	(38,911)
Finance costs	6	(9,286)	(7,689)
Share of profit of an associate		10,854	11,551
Share of profit of a joint venture		<u>5,583</u>	<u>9,179</u>
Loss before income tax	8	(9,336)	(5,768)
Income tax credit/(expense)	7	<u>14,534</u>	<u>(2,335)</u>
Profit/(loss) and total comprehensive income/ (expense) for the year		<u>5,198</u>	<u>(8,103)</u>
Profit/(loss) per share	9	<u>RMB0.003</u>	<u>RMB(0.01)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

		At 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		150,488	81,721
Right-of-use assets		47,380	48,773
Interest in an associate		97,145	103,303
Interest in a joint venture		47,756	85,003
Financial assets at FVTPL		154,121	167,150
Restricted bank deposits and balances	11	108,122	107,000
Bank deposits with original maturity more than three months	11	10,500	10,500
Deferred tax assets		31,013	30,971
		646,525	634,421
CURRENT ASSETS			
Inventories		32,882	56,344
Trade and bills receivables	10	342,535	423,794
Prepayments, deposits and other receivables		84,513	48,203
Restricted bank deposits and balances	11	65,672	67,292
Bank deposits with original maturity more than three months	11	–	24,288
Bank deposits, bank balances and cash	11	247,767	229,931
		773,369	849,852

		At 31 December	
		2023	2022
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	259,318	318,186
Other payables		34,014	42,232
Loan from a joint venture		–	20,229
Contract liabilities		3,619	2,946
Lease liabilities		212	355
Bank borrowings	<i>13</i>	230,000	256,562
Tax payables		10,880	23,400
		<u>538,043</u>	<u>663,910</u>
NET CURRENT ASSETS		<u>235,326</u>	<u>185,942</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>881,851</u>	<u>820,363</u>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	1,418	1,418
Reserves		776,630	771,432
Equity attributable to owners of the Company		<u>778,048</u>	<u>772,850</u>
NON-CURRENT LIABILITIES			
Bank borrowings	<i>13</i>	80,000	20,000
Deferred tax liabilities		9,070	12,102
Deferred income – government grants		14,733	15,199
Lease liabilities		–	212
		<u>103,803</u>	<u>47,513</u>
		<u>881,851</u>	<u>820,363</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 IFRS Accounting Standards that are mandatorily effective for the current year

The following amended IFRS Accounting Standards are mandatory for the first time for the financial year beginning 1 January 2023 and the impacts of the adoption are disclosed below.

Amendments to IAS 1

Disclosure of Accounting Policies

The amendments to IAS 1 and IFRS Practice Statement 2 aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure. These amendments have no effect on the measurement or presentation of any items in the financial statements of the Company but affect the disclosure of accounting policies of the Company.

The following new or amended IFRS Accounting Standards are mandatory for the first time for the financial year beginning 1 January 2023, but have no material effect on the Company's reported results and financial position for the current and prior accounting periods.

IFRS 17

Insurance Contracts

Amendments to IAS 8

Definition of Accounting Estimations

Amendments to IAS 12

Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amendments to IAS 12

International Tax Reform – Pillar Two Model Rules

New and amendments to IFRS Accounting Standards in issue but not yet effective

The following amended IFRS Accounting Standards, potentially relevant to the Company's financial statements, have been issued, but are not yet effective and have not been early adopted by the Company. The Company's current intention is to apply these changes on the date they become effective.

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1	Non-current Liabilities with Covenants ¹
Amendments to IAS 7	Supplier Finance Arrangements ¹
Amendments to IAS 21	Lack of Exchangeability ²

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

² Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company do not anticipate that the applications of the amendments and revision in the future will have significant impacts on the 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Optical fibre cables	463,206	542,636
Optical distribution network devices	14,924	27,295
Prepainted steel sheet	44,131	63,774
	<u>522,261</u>	<u>633,705</u>

All 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 credit/(expense) 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		Year ended		Year ended	
	31 December		31 December		31 December	
	2023	2022	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>478,130</u>	<u>569,931</u>	<u>44,131</u>	<u>63,774</u>	<u>522,261</u>	<u>633,705</u>
Gross profit/(loss)	<u>70,815</u>	<u>58,553</u>	<u>(142)</u>	<u>(1,189)</u>	<u>70,673</u>	<u>57,364</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	6,595	6,969
Foreign exchange (losses)/gains, net	(707)	10,731
Sale of electricity and gain on sales of other materials	6,855	9,462
Government grants recognised (<i>Note</i>)	4,305	1,883
Loss on disposal of property, plant and equipment	(15)	(9)
Others	(15)	453
	<hr/>	<hr/>
Other income, gains, expenses and losses, net	<u>17,018</u>	<u>29,489</u>

Note: The government grants recognised included the release of deferred income of approximately RMB466,000 (2022: approximately RMB466,000) during the year. As at 31 December 2023 and 2022, 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on borrowings	10,519	6,673
Interest on joint venture	388	994
Interest on lease liabilities	11	22
	<hr/>	<hr/>
	10,918	7,689
Less: amounts capitalised as construction in progress	(1,632)	–
	<hr/>	<hr/>
Finance costs, net	<u>9,286</u>	<u>7,689</u>

The capitalisation rate used to determine capitalised amounts of interests incurred in 2023 was 2.04%.

7. INCOME TAX CREDIT/EXPENSE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
PRC Enterprise Income Tax (“EIT”)	11,460	(2,057)
Deferred tax	<u>3,074</u>	<u>(278)</u>
Income tax credit/(expense)	<u><u>14,534</u></u>	<u><u>(2,335)</u></u>

No provision for income tax has been made for the Company and certain of its subsidiaries as they did not earn taxable income during the year (2022: Nil).

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

8. LOSS BEFORE INCOME TAX

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories recognised as cost of sales	<u>451,588</u>	<u>576,341</u>
Loss before income tax has been arrived at after charging:		
Depreciation of property, plant and equipment	10,781	11,571
Less: depreciation capitalised in inventories	<u>(8,385)</u>	<u>(9,101)</u>
Depreciation recognised as cost of sales	<u>2,396</u>	<u>2,470</u>
Depreciation of right-of-use assets	1,393	983
Auditor’s remuneration	700	650
Staff costs (including the directors’ remuneration):		
– Salaries, wages and allowances	31,403	32,232
– Retirement benefit scheme contributions	2,193	3,575
– Equity-settled share-based payment expenses	<u>–</u>	<u>741</u>
Total staff costs	<u><u>33,596</u></u>	<u><u>36,548</u></u>

9. PROFIT/(LOSS) PER SHARE

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss)		
Profit/(loss) for the purpose of basic earnings per share		
(Profit/(loss) for the year attributable to owners of the Company)	<u>5,198</u>	<u>(8,103)</u>

	Year ended 31 December	
	2023	2022
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,626,240</u>	<u>1,543,207</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	348,616	430,437
Less: Allowance of credit losses	<u>(8,996)</u>	<u>(6,643)</u>
Trade receivable, net	339,620	423,794
Bills receivable (<i>Note</i>)	<u>2,915</u>	<u>–</u>
Trade and bills receivables	<u>342,535</u>	<u>423,794</u>

Note: At as 31 December 2023, 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	
	2023	2022
	RMB'000	RMB'000
Less than 6 months	305,040	404,550
More than 6 months, but less than 1 year	27,528	10,989
More than 1 year	7,052	8,255
	<hr/>	<hr/>
Trade receivables, net	<u>339,620</u>	<u>423,794</u>

For the year ended 31 December 2023, 89.3% (2022: 88.9%) 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 0.20% to 3.55% per annum (2022: ranging from 0.30% to 3.55% 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 are due for withdrawal from January 2023 to June 2023.

As at 31 December 2023, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits and balances totalling approximately RMB173,794,000 (2022: approximately RMB174,292,000) to secure bills payable.

12. TRADE AND BILLS PAYABLES

	At 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	132,413	154,535
Bills payable	<u>126,905</u>	<u>163,651</u>
Trade and bills payables	<u><u>259,318</u></u>	<u><u>318,186</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 6 months	124,367	149,622
More than 6 months, but less than 1 year	742	1,924
More than 1 year	<u>7,304</u>	<u>2,989</u>
Trade payables	<u><u>132,413</u></u>	<u><u>154,535</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Secured and guaranteed bank borrowing	–	96,498
Unsecured and guaranteed bank borrowings	130,000	180,064
Unsecured and unguaranteed bank borrowings	<u>180,000</u>	<u>–</u>
Bank borrowings	<u><u>310,000</u></u>	<u><u>276,562</u></u>

14. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary share of HK\$0.001 each		
Authorised:		
At 1 January 2022, 31 December 2022 and 2023	<u>8,000,000</u>	<u>8,000</u>
Issued and fully paid:		
At 1 January 2022	1,478,400	1,478
Shares issued upon the exercise of share options (<i>note a</i>)	<u>147,840</u>	<u>148</u>
At 31 December 2022 and 2023	<u>1,626,240</u>	<u>1,626</u>

Presented in the consolidated financial statements as

	<i>RMB'000</i>
At 1 January 2022	1,291
Shares issued upon the exercise of share options (<i>note a</i>)	<u>127</u>
At 31 December 2022 and 2023	<u>1,418</u>

Notes:

- (a) 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 for the year ended 31 December 2022.

15. DIVIDENDS

The Directors have resolved not to declare a final dividend for the year ended 31 December 2023 (2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading telecommunication manufacturer in the People's Republic of China (“**PRC**”). For the year ended 31 December 2023, the Group recorded a decrease of total revenue by 17.6% to approximately RMB522.3 million (2022: approximately RMB633.7 million).

During the year ended 31 December 2023, the gross profit of the Group was approximately RMB70.7 million (2022: approximately RMB57.4 million), representing an increment of approximately 23.2%.

During the year ended 31 December 2023, the Company reported a profit and total comprehensive income for the year attributable to owners of the Company of approximately RMB5.2 million (2022: loss and total comprehensive expense of approximately RMB8.1 million).

During the year ended 31 December 2023, the Company's earnings per share was approximately RMB0.003 (2022: basic loss per share of approximately RMB0.01).

PROPOSED DISPOSAL OF THE SALE SHARES

On 26 November 2023, Pacific Smart Development Limited (“**Pacific Smart**”), an indirect wholly-owned subsidiary of the Company, the other shareholders of Source Photonic Holdings (Cayman) Limited (the “**Target Company**”), the ESOP participant representatives, Vantone Neo Development Group Co., Ltd. (“**Vantone**”) and the Target Company entered into a framework agreement, pursuant to which Pacific Smart (being one of the vendors) conditionally agreed to sell, and Vantone conditionally agreed to purchase, the 8,235,293 class A preferred shares of the Target Company held by Pacific Smart (the “**Sale Shares**”). The Consideration payable to Pacific Smart by Vantone for the Sale Shares is expected to be not less than US\$21,559,000 (equivalent to approximately RMB153.1 million). The expected consideration was arrived at based on (i) a preliminary agreed value of the Target Company of US\$620 million (equivalent to RMB4,402 million); and (ii) approximately 3.48% (on a fully-diluted basis) of the issued share capital of the Target Company represented by the Sale Shares. Subject to completion of a formal valuation, a formal sale and purchase agreement will be entered into between Pacific Smart and the other parties thereto thereafter.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in respect of the possible disposal of the Sale Shares is expected to exceed 75%, the said disposal will constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

For details of the possible disposal of the Sale Shares, please refer to the Company's announcement dated 4 December 2023.

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 2023 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 2023, the Group's total revenue was approximately RMB522.3 million, representing a decrease of 17.6% from approximately RMB633.7 million for the year ended 31 December 2022.

By product segment, revenue of approximately RMB478.1 million was contributed by the optical fibre cables and optical distribution network devices segment, representing a decrease of approximately 16.1% as compared to 2022 of approximately RMB569.9 million. These accounted for 91.6% (2022: 89.9%) of the Group's revenue.

On the other hand, revenue of approximately RMB44.1 million was contributed by prepainted steel sheet segment, representing a decrease of approximately 30.8% as compared to 2022 of approximately RMB63.8 million. This accounted for 8.4% (2022: 10.1%) of the Group's revenue.

Cost of sales

For the year ended 31 December 2023, the cost of sales of the Group amounted to approximately RMB451.6 million, representing a decrease of approximately 21.6% from approximately RMB576.3 million for the year ended 31 December 2022.

Gross profit and gross profit margin

Gross profit of the Group increased by approximately 23.2% to approximately RMB70.7 million for the year ended 31 December 2023 from approximately RMB57.4 million for the same period in 2022. During the Reporting Period, the Group's gross profit margin was approximately 13.5% as compared to a gross profit margin of approximately 9.1% for the year ended 31 December 2022. While the unit selling price remained fairly stable, the Group's gross profit and gross profit margin were boosted in the Reporting Period owing to a significant drop in the cost of raw materials (including non-ferrous metals and some other chemical feedstocks) and a strict control of the overall production costs.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB17.0 million for the year ended 31 December 2023 as compared to approximately RMB29.5 million for the same period in 2022. The decrease was mainly attributable to the recognition of net foreign exchange losses during the Reporting Period whereas net foreign exchange gains were recognised for the same period in 2022.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.5 million for the year ended 31 December 2023 which has slightly dropped by approximately 0.5% compared to approximately RMB19.6 million for the same period in 2022.

Administrative expenses

The Group's administrative expenses decreased by approximately 23.0% to approximately RMB35.3 million for the year ended 31 December 2023 from approximately RMB45.9 million for the year ended 31 December 2022 ascribed to the implementation of more stringent cost-control measures.

Research costs

The Group's research costs dropped by approximately 12.9% to approximately RMB33.9 million for the year ended 31 December 2023 from approximately RMB38.9 million for the year ended 31 December 2022. The change was mainly due to the completion of some product development projects during the year.

Finance costs

During the year ended 31 December 2023, the Group's finance costs increased by approximately 20.8% to approximately RMB9.3 million from approximately RMB7.7 million for the year ended 31 December in 2022. This was mainly due to the bank borrowings and the general borrowing rate increased during the Reporting Period. As a result, the finance costs increased as compared with same period in 2022.

Share of profit of an associate

During the year ended 31 December 2023, the Group recorded a share of profit of an associate of approximately RMB10.9 million, representing a decrease of approximately 6.0% from approximately RMB11.6 million for the year ended 31 December 2022. 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 2023, the Group recorded a share of profit of a joint venture of approximately RMB5.6 million, representing a decrease of approximately 39.2% from approximately RMB9.2 million for the year ended 31 December 2022. The joint venture is engaged in the manufacturing and sale of optical fibre preforms.

Income tax credit/expense

During the year ended 31 December 2023, the Group recorded an income tax credit of approximately RMB14.5 million as compared to an income tax expense of approximately RMB2.3 million incurred for the year ended 31 December 2022, owing to an increase in income tax credit recognised under the laws of the People's Republic of China.

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

As a result of the foregoing, the Company recorded a profit and total comprehensive income attributable to owners of approximately RMB5.2 million for the year ended 31 December 2023 as compared to a loss and total comprehensive expense of approximately RMB8.1 million for the same period in 2022.

Liquidity, financial and capital resources

During the year ended 31 December 2023, 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 2023, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB432.1 million (2022: approximately RMB439.0 million), representing a decrease of approximately 1.6% as compared to that as at 31 December 2022.

As at 31 December 2023, the Group had interest-bearing bank borrowings amounted to approximately RMB310.0 million (2022: approximately RMB276.6 million) and did not have loan from a joint venture (2022: approximately RMB20.2 million).

All interest-bearing bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a fixed-rate bank borrowing of approximately RMB100.0 million which was unsecured and unguaranteed, and a variable-rate bank borrowing of approximately RMB80.0 million which was neither secured nor guaranteed and repayable after one year (2022: approximately RMB96.5 million which was secured by certain bank deposits of the Group, repayable after one year and denominated in Euro). The Group's bank borrowings of RMB210.0 million (2022: RMB206.5 million) carry fixed interest rates at rates range from 3.05% to 3.24% per annum (2022: range from 1.0% to 3.3% per annum). The bank borrowings of approximately RMB100.0 million (2022: approximately RMB70.1 million) carry variable market interest rates ranging from 3.29% to 4.00% per annum (2022: ranging from 3.25% to 3.30% per annum).

The loan from a joint venture is unsecured, interest bearing at 4.35% per annum and repaid during the Reporting period.

Charges on the Group's assets

As at 31 December 2023, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB173.8 million (2022: approximately RMB174.3 million) to secure bank borrowings, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 31 December 2023, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 82.5% (2022: approximately 92.1%).

Currency risk

While the Group's operations were principally conducted in the PRC during the year ended 31 December 2023 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 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the 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 89.3% (2022: approximately 88.9%) of trade receivables as at 31 December 2023 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 2023, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment amounting to approximately RMB67.4 million (2022: approximately RMB122.7 million).

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. 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 2023, the Group had approximately 310 employees (2022: approximately 320). For the Reporting Period, the Group incurred staff costs of approximately RMB33.6 million (2022: approximately RMB36.5 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, no share options and/or awards have been cancelled or lapsed. As the scheme mandate limit to grant 147,840,000 Shares under the share option scheme was fully utilised in 2022 and the scheme mandate limit was not refreshed, no share options and/or awards may be granted during the Reporting Period. Hence, no share options and/or awards have been granted pursuant to the share option scheme during the Reporting Period.

As at 31 December 2023, there is no outstanding share options to be exercised for Shares.

No equity-settled share-based payment expenses were recognised during the Reporting Period (2022: approximately RMB741,000).

OUTLOOK

Looking ahead to 2024, it is expected that the “400G Backbone Networks” will strongly drive the demand for new generation products of optical fibre and cable, construction of cities with gigabit network and smart home upgrading promotes the rapid popularity of fibre-to-the-room (FTTR) solutions. Further, it is also expected that construction of fully 5G+ fibre-connected factories will accelerate the digital and intelligent transformation and upgrading of manufacturing industry. The Company is of the view that these trends present a brand-new opportunity to upgrade its market and technology. Nowadays, big data and cloud computility have become key productivity factors in the era of digital economy. 5G, cloud computing, industrial internet, in-vehicle applications, artificial intelligence (AI) and other new forms of business are becoming key drivers to propel development of new types of information consumption. These developments indicate that the optical fibre and cable industry is likely to experience a new round of opportunities for prosper development of the society as a whole. Along with the rapid development of the global communications, the optical fibre cable industry is showing a booming development trend.

In 2023, ChatGPT opened a new chapter of the AI era, which led to accelerated construction of new infrastructure arising from significant increase in demand for computility. It is expected that the optical communication industry will capitalise this opportunity to switch its business focus from cloud computing to AI computility. In addition, the upstream demand for optical communications continues to increase driven by the booming digital communication market benefited from AI-trained computility demand, the global data scale growth and the network architecture transformation. 5G construction in the telecommunication market and prosperity in the Passive Optical Network (PON) market have become the direct factors driving the steady growth of optical communication demand.

According to the Ministry of Industry and Information Technology of the PRC (MIIT), by the end of 2023, the proportion of fiber-to-the-home (FTTH) access ports to Internet broadband access ports in China has risen to 96.3% with a relatively high FTTH penetration. Comparing the proportion of users with access rates of 1,000Mbps and above to the number of fixed broadband subscribers is only 25.7% could illustrate that there is a large space of development in improving penetration of gigabit optical fibre network. With the popularity of fibre-optic broadband with access rates of 1 gigabit or above, smart home services such as home intelligent networking, home cloud, intelligent security monitoring and full-house intelligence have shown fast growth, and accordingly driven the rapid expansion of operators' home broadband market, resulting in continuous growth in comprehensive home average revenue per user (ARPU). Furthermore, FTTH has been gradually moving forward to FTTR, which has comprehensively improved the application experience in smart home business. FTTR has become the main direction for domestic operators to develop the fixed broadband market, and is expected to become an important development trend for digital life and smart home. The further upgraded demand for smart home will drive the in-depth integration of FTTR and smart home applications, thus to achieve better experience, more intelligence and better ecology.

On 25 December 2023, the National Development and Reform Commission and other authorities of the PRC jointly issued the Opinions on Further Implementation of the “East-to-West Computing Resource Transfer” Project and Accelerating the Construction of a National Integrated Computility Network (《關於深入實施“東數西算”工程加快構建全國一體化算力網的實施意見》), making it clear that construction of a national integrated computility network shall be accelerated, and that by the end of 2025, the East-and-West computility collaborative scheduling system shall be gradually improved, and that the new computility from national hubs shall account for more than 60% of that of the whole nation. In addition, “5G+Industrial Internet” serves as an essential support to accelerate the new industrialisation process in mainland China. Along with the deepening penetration of 5G in the manufacturing industry, construction of fully 5G+ fibre-connected factories has been rolling out across the country. It is noted that since the issue of the “Guidelines on Construction of Fully 5G Connected Factories” by the MIIT in 2022, the number of 5G fibre-connected factories across the country has increased to 300. Domestic operators are important driving forces for the commercial implementation of “5G+ Industry Applications”, and play an important role in the construction of fully 5G+ fibre-connected factories.

Optical communication is the foundation for computility in the AI era and an important support for the digital economy, while optical fibre and optical fibre cable are indispensable underlying infrastructure for optical communication. The Group will continue to focus on consolidating and continuously expanding the market share of its existing products. The Group will, on the basis of advancing the rapid development and growth of businesses such as optical components, seize the development opportunities of new-generation optical fibre and optical fibre cable products with new capabilities such as larger capacity, lower latency and wider coverage that are needed by the new-generation computility network. For new scenarios such as AI and computility, the Group will actively intensify the research and development of new optical fibre and optical fibre cable to attain breakthroughs and development in the new-generation information and communication infrastructure. The Company will also explore new measures to further strengthen its control over the price of raw materials, thereby strengthening the Company's cost control and thus its competitiveness and profitability. Efforts will be made to seek and explore new business growth areas, with a view to achieving breakthroughs in data centres, industrial internet, new energy vehicles and other industries to complement the Group's sustainable and stable development.

In 2024, the global macro economy will still face risks, and the international situation will remain complicated. The optical fibre and optical fibre cable industry is highly cyclical as the development of the industry is highly positively correlated to the investment efforts of telecommunications operators. It is believed that its impact on the Group's operations and future prospects will depend on the macro policies and environment and relevant protective measures that may affect the business environment in which the Group operates. In addition, in the context of the vigorous development of the digital economy, optical fibre cables are used as the basic infrastructure for optical communication, which has brought opportunities for the development of the optical fibre cable industry. However, there remains uncertainties in the price trends of bulk raw materials and nonferrous 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.

In order to cope with the challenges, the Group will actively cater for the opportunities arising from the development of the digital economy and the upgrading of both optical communications market and technology in 2024. 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 2023.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the “**AGM**”) will be held on 18 June 2024 (Tuesday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

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 C1 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the applicable code provisions as set out in the CG Code during the year ended 31 December 2023. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules (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 2023 and up to the date of this announcement.

AUDIT COMMITTEE

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

The Audit Committee 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 2023 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. 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 12 June 2024 (Wednesday) to 18 June 2024 (Tuesday) (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 11 June 2024 (Tuesday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, 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 2023 annual report and will be available at the websites of each of the Stock Exchange and the Company on or before 29 April 2024 (Monday). The printed copy of the Company's 2023 annual report will only be mailed to the Company's shareholders who have made such request. For details of the arrangement, please refer to the "New Arrangements on Dissemination of Corporate Communications" dated 4 March 2024 published by the Company on 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, 27 March 2024

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