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Zhonggan Communication (Group) Holdings Limited
中赣通信(集团)控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2545)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

- Revenue for the Reporting Period amounted to approximately RMB237.3 million, representing a decrease of 2.5% as compared with the six months ended 30 June 2023.
- Gross profit for the Reporting Period amounted to RMB51.3 million, representing a decrease of 13.9% as compared with the six months ended 30 June 2023.
- Profit attributable to equity shareholders of the Company for the Reporting Period amounted to RMB18.6 million, representing a decrease of 14.8% as compared with the six months ended 30 June 2023.
- The Board does not recommend the payment of interim dividends in respect of the six months ended 30 June 2024.

The board (the “**Board**”) of directors (the “**Directors**”) of Zhonggan Communication (Group) Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2024 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2023 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	For the six months ended 30 June	
		2024	2023
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	<i>3</i>	237,283	243,288
Cost of sales		(185,951)	(183,650)
Gross profit		51,332	59,638
Other net income	<i>4</i>	2,381	2,937
Selling expenses		(1,324)	(1,807)
Administrative expenses		(20,540)	(24,325)
Research and development expenses		(5,932)	(5,966)
Profit from operations		25,917	30,477
Finance costs	<i>5(a)</i>	(7,683)	(8,967)
Profit before taxation	<i>5</i>	18,234	21,510
Income tax	<i>6</i>	356	298
Profit and total comprehensive income for the period		18,590	21,808
Attributable to			
Equity shareholders of the Company		18,590	21,729
Non-controlling interests		–	79
		18,590	21,808
Earnings per share			
Basic and diluted (RMB)	<i>7</i>	0.04	0.05

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2024	As at 31 December 2023
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		33,812	34,003
Investment property		18,577	18,841
Investments in associates		7,424	7,424
Trade receivables	8	27,135	27,136
Deferred tax assets		26,910	6,513
		113,858	93,917
Current assets			
Inventories and other contract costs		28,120	11,240
Contract assets		793,632	726,829
Trade and other receivables	8	241,325	244,601
Other financial assets		34	34
Pledged bank deposits		3,184	3,193
Cash and cash equivalents		6,618	81,540
		1,072,913	1,067,437
Total assets		1,186,771	1,161,354
Current liabilities			
Trade and other payables	9	553,263	677,514
Contract liabilities		2,629	4,795
Lease liabilities		140	145
Bank borrowings	10	339,402	347,458
Current taxation		14,941	1,258
		910,375	1,031,170
Net current assets		162,538	36,267
Total assets less current liabilities		276,396	130,184

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Non-current liabilities			
Lease liabilities		61	129
Deferred income		1,805	1,833
		1,866	1,962
Total liabilities		912,241	1,033,132
NET ASSETS		274,530	128,222
CAPITAL AND RESERVES			
Share capital		83	83
Share premium		12,112	12,112
Reserves	<i>11</i>	262,335	116,027
Total equity attributable to equity shareholders of the Company		274,530	128,222
TOTAL EQUITY		274,530	128,222

1. BASIS OF PREPARATION

This consolidated financial statements of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, “*Interim financial reporting*”, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issue on 28 August 2024.

The consolidated financial statements of the Group has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2024 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current (“**2020 amendments**”)

Amendments to HKAS 1, Presentation of financial statements: Non-current liabilities with covenants (“**2022 amendments**”)

Amendments to HKFRS 16, Leases: Lease liability in a sale and leaseback

Amendments to HKAS 7, Statement of cash flows and HKFRS 7, Financial instruments: Disclosures – Supplier finance arrangements

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. None of these amended HKFRSs will have a material impact on the Group’s interim financial statements.

3. REVENUE

The principal activities of the Group are the provision of telecommunications infrastructure construction services, digitalisation solution services and maintenance services for customers in the People's Republic of China (the "PRC").

Disaggregation of revenue

	For the six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS15 by major services is as follows:		
	(Unaudited)	(Unaudited)
Revenue from telecommunications infrastructure services		
– infrastructure construction services	195,125	189,105
– infrastructure maintenance services	20,674	16,304
Revenue from digitalisation solution services		
– integrated solution services	272	11,547
– system maintenance services	251	381
– software solution services	20,961	25,951
Total	237,283	243,288
Disaggregated by timing of revenue recognition		
– Over time	202,018	208,613
– Point in time	35,265	34,675
Total	237,283	243,288

4. OTHER NET INCOME

	For the six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Interest income (<i>Note (i)</i>)	380	691
Bank deposit interest income	10	69
Government grants (<i>Note (ii)</i>)	1,489	1,376
Rentals income from investment properties less direct outgoings	320	321
Gain on disposal of property, plant and equipment and other financial assets	15	1
Net foreign exchange gain	159	404
Others	8	75
Total	2,381	2,937

Note (i) The interest income is attributable to the significant financing benefit to the Group for contracts containing a financing component;

Note (ii) The government grants mainly represent awards from Jiangxi government authorities attributable to (i) the recognition of the Group's efforts in reducing corporate costs and optimising development environment; (ii) the recognition of the Group's contribution to the development of high-tech industries in Nanchang; (iii) the subsidies for leading projects in Nanchang and (iv) software VAT refund upon collection.

5. PROFIT BEFORE TAXATION

Profit before taxation of the Group is arrived at after charging:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs		
Interest on bank borrowings	7,678	8,952
Interest on contract contains a financing component	–	7
Interest on lease liabilities	5	8
	<u>7,683</u>	<u>8,967</u>
(b) Staff costs		
Salaries, discretionary bonus and allowance	12,066	12,469
Contributions to defined contribution retirement plan	929	1,288
	<u>12,995</u>	<u>13,757</u>
(c) Other items		
Depreciation		
– property, plant and equipment	766	752
– investment property	264	263
– right-of-use assets	136	157
Impairment losses/(reversal)		
– trade receivables	6,608	10,299
– contract assets	1,337	(759)
– other receivables	204	(371)
Short-term and low-value lease charges	335	29
Research and development costs (excluding staff cost)	143	236
Labour cost (<i>note (i)</i>)	173,985	164,578
Cost of inventories (<i>note (ii)</i>)	264	5,847
Listing expense	6,447	5,740
	<u>6,447</u>	<u>5,740</u>

Notes:

- (i) The Group engages labour suppliers to supplement the labor force in performing labour intensive projects.
- (ii) Cost of inventories mainly include the cost of hardware used for the provision in digitalisation solution services.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Provision for the year	20,041	(19,242)
Deferred tax		
Origination and reversal of temporary differences	<u>(20,397)</u>	<u>18,944</u>
	<u>(356)</u>	<u>(298)</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Reporting Period.
- (iii) The subsidiaries of the Group established in the PRC is subject to PRC Corporate Income Tax rate at the statutory rate of 25%.
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“HNTTE”) which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria. Zhonggan Communication was qualified as an HNTTE since 2015, Jiangxi Gelapu Technology Company Limited was qualified as an HNTTE since 2020, and these qualifications have remained valid throughout the Reporting Period.
- (v) According to the relevant tax rules in the PRC, qualified research and development costs are allowed for bonus deduction for income tax purpose, as a result, an additional 100% of the qualified research and development costs could be deemed as deductible expenses during the Reporting Period.
- (vi) According to the PRC Corporate Income Tax Law and its implementation regulations, Jiangxi Gelapu Software Company Limited was qualified as a “Double-soft Enterprise” in 2023, which entitles the qualified companies to enjoy full exemption from corporate income tax for the first two years from the profit-making year and a 50% reduction on corporate for the next subsequent three years.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB18,590,000 (six months ended 30 June 2023: RMB21,808,000) and the weighted average of 480,000,000 shares (2023: 475,995,000 shares) after adjusting for capitalisation issue as disclosed in “SIGNIFICANT EVENT AFTER THE END OF THE REPORTING PERIOD” in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the six months ended 30 June 2024 and 2023.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Trade receivables		
– current	237,393	247,109
– non-current	28,504	28,504
	<u>265,897</u>	<u>275,613</u>
Other receivables	9,150	9,872
	<u>(35,076)</u>	<u>(28,264)</u>
Trade and other receivables, net of loss allowance	239,971	257,221
Amounts due from related parties	109	109
Current tax prepayment	–	2,280
Prepayment for labour and services	15,927	2,006
Prepayment for listing expense	6,913	4,822
Deferred VAT refund	5,540	5,299
	<u>268,460</u>	<u>271,737</u>

Notes:

- (i) Apart from the non-current trade receivables as stated above, all of the other trade and other receivables are expected to be recovered or recognised as expense within one year.
- (ii) Other receivables represented tender bonds and performance bonds which will be released to the Group upon the award and the completion of the relevant projects, as the case may be.
- (iii) As at 30 June 2024, prepayment for labour mainly represents the advance payment for projects to procure labour and equipment.

Ageing analysis

As at 30 June 2024 and 31 December 2023, the ageing analysis of trade receivables, based on the transaction date or invoice date and net of loss allowance, are as follows:

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Within 6 months	124,281	120,668
More than 6 months but within 12 months	88,018	88,135
More than 12 months but within 18 months	36,210	39,978
More than 18 months but within 24 months	7,253	13,570
More than 24 months	10,135	13,262
Trade and bills receivables	265,897	275,613
Less: loss allowance	(32,226)	(25,618)
	233,671	249,995

9. TRADE AND OTHER PAYABLES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Trade payables		
– third parties	440,783	438,053
Accrued payroll	3,903	4,049
Amounts due to shareholders	5,853	144,861
Amounts due to associates	7,350	7,350
Other tax payables	84,287	76,186
Other payables and accruals	11,087	7,014
	<u>553,263</u>	<u>677,514</u>

Notes:

- (i) The above trade and other payables are expected to be settled within one year or are repayable on demand.
- (ii) Other tax payables primarily comprised VAT payables.
- (iii) The movements in amounts due to shareholders were mainly due to the payment of approximately RMB139,837,000 in March and April 2024 for the transfer of shareholders' equity.

As at 31 December 2023 and 30 June 2024, the ageing analysis of trade payables (which are included in trade and other payables), based on the transaction date, is as follows:

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Within 1 year	339,229	327,691
Over 1 year but within 2 years	53,329	68,215
Over 2 years but within 3 years	19,660	20,938
Over 3 years	28,565	21,209
	<u>440,783</u>	<u>438,053</u>

10. SHORT-TERM BORROWINGS

(a) *The Group's bank borrowings are repayable as follows:*

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Within 1 year or on demand	<u><u>339,402</u></u>	<u><u>347,458</u></u>

(b) *Assets pledged as security and covenants for bank loans and overdrafts*

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Unsecured bank borrowings	50,000	50,074
Secured bank borrowings	<u>289,402</u>	<u>297,384</u>
	<u><u>339,402</u></u>	<u><u>347,458</u></u>

The bank borrowings are secured by certain assets of the Group and the carrying amounts of these assets are as below:

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Property, plant and equipment	19,362	19,827
Investment property	18,577	18,841
Trade receivables and contract assets	860,875	624,886
Bank deposits pledged for bank borrowings	1,103	1,110
Bank deposits pledged for bank facilities	<u>2,071</u>	<u>2,073</u>
	<u><u>901,988</u></u>	<u><u>666,737</u></u>

11. CAPITAL, RESERVES AND DIVIDENDS

(a) Nature and purpose of reserves

Statutory reserve

In accordance with the relevant PRC laws and regulations, the Group's subsidiaries established in the PRC are required to transfer 10% of its net profit each year to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before distributions to equity holders.

Other reserve

As of 30 June 2024, other reserve of the Group of approximately RMB127,718,000 was contributed by the related shareholders at the beginning of 2024.

(b) Dividends

No dividends were paid, declared or proposed for the six months ended 30 June 2024 and 2023. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

12. CAPITAL COMMITMENTS

As of 31 December 2023 and 30 June 2024, the Group had no capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

The Company was successfully listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 3 July 2024 (the “**Listing Date**”). The Group is a reputable integrated service provider and software developer headquartered in Jiangxi Province of the People’s Republic of China (the “**PRC**”) and focuses on the provision of Telecommunications Infrastructure Services and Digitalisation Solution Services in the PRC.

Telecommunications Infrastructure Services

The customers of the Group’s Telecommunications Infrastructure Services mainly include telecommunications network operators, telecommunications tower infrastructure service providers, local governments, quasi-government institutions and state-owned enterprises. The Group’s main business models for Telecommunications Infrastructure Services are:

1. Infrastructure Construction Services mainly involve the construction, adaptation and installation works of network infrastructure along the entire telecommunications network, such as base stations and auxiliary facilities engineering services, power grid connection services, cable installation services, access network related services and wireless network equipment installation services.
2. Infrastructure Maintenance Services mainly involve carrying out routine basic maintenance, repairs and restoration works and emergency trouble-shooting to the telecommunications infrastructure located across rural and urban areas in the PRC.

Digitalisation Solution Services

The Digitalisation Solution Services consist of Integrated Solution Services, System Maintenance Services and Software Solution Services, and aim to improve the operational efficiency and productivity of its customers through incorporating digital technologies such as IoT, cloud computing, big data, discriminative AI and blockchain to enable the integration of various hardware and software systems under a unified platform. The Company's main business models for Digitalisation Solution Services are:

1. Integrated Solution Services generally provide turnkey solutions through (i) system design planning; (ii) supply of hardware and software and installation and integration services; and (iii) provision of after-sale services such as technical support services, which primarily involve the provision of a comprehensive digitalisation solution that includes all the necessary hardware and software components in a single package.
2. System Maintenance Services mainly include commissioned technical support and maintenance services for the hardware and software systems delivered under its Integrated Solution Services projects. System Maintenance Services generally include (i) day-to-day system and network maintenance and data back-up support services; (ii) 24/7 technical support and consulting services; (iii) system migration solution services; and (iv) emergency trouble shooting services.
3. Software Solution Services focus on (i) sale of self-developed software; and (ii) delivering customised software development services.

OUTLOOK

Looking ahead, the Board plans to accelerate the Group's Telecommunications Infrastructure Services layout nationwide, and continues to expand the Group's Telecommunications Infrastructure Services outside Jiangxi Province. As at 30 June 2024, the Group has successfully developed projects in Xinjiang Uygur Autonomous Region. At the same time, the Group is also actively seeking strategic partnerships in digitalisation solution business as well as investment opportunities in mergers and acquisitions. Meanwhile, the Group will enhance its liquidity position and financial capabilities in securing new large-scale Digitalisation Solution Services projects and strengthen its research and development capabilities to enhance its provision of Digitalisation Solution Services.

The Board considers that the Listing has impacted the perception of customers towards the Group and believes that the Listing is a form of complementary advertising which will further enhance the corporate profile, assist in reinforcing the brand awareness and market reputation, enhance the credibility with the public and potential business partners and offer the Company a broader shareholder base which will provide liquidity in the trading of the shares of the Company (the “Shares”).

The Company intends to apply net proceeds in the manner as described under the section headed “Future Plans and Use of Proceeds” in the Prospectus.

FINANCIAL OVERVIEW

Revenue

The Group derives revenue from Telecommunications Infrastructure Services and Digitalisation Solution Services.

The following table sets out a breakdown of revenue by business scope for the periods indicated:

	For the six months ended 30 June			
	2024		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)		(Unaudited)	
Revenue from Telecommunications				
Infrastructure Services	215,799	90.9	205,409	84.4
—Infrastructure Construction Services	195,125	82.2	189,105	77.7
—Infrastructure Maintenance Services	20,674	8.7	16,304	6.7
Revenue from Digitalisation				
Solution Services	21,484	9.1	37,879	15.6
– Integrated Solution Services	272	0.1	11,547	4.7
– System Maintenance Services	251	0.1	381	0.2
– Software Solution Services	20,961	8.9	25,951	10.7
Revenue	237,283	100.0	243,288	100.0

The Group's revenue decreased by 2.5% from RMB243.3 million for the six months ended 30 June 2023 to RMB237.3 million for the six months ended 30 June 2024, mainly due to a decrease of 43.3% in revenue from Digital Solution Services.

The Group's revenue from Telecommunications Infrastructure Services increased by 5.1% from RMB205.4 million for the six months ended 30 June 2023 to RMB215.8 million for the six months ended 30 June 2024, mainly due to a moderate increase in work orders placed by clients for Infrastructure Construction Services and an increase of RMB3.2 million in the revenue from power generation and the revenue from sporadic repair and maintenance under the revenue from Infrastructure Maintenance Services.

The Group's revenue from Digitalisation Solution Services decreased from RMB37.9 million for the six months ended 30 June 2023 to RMB21.5 million for the six months ended 30 June 2024, mainly due to the decrease in the projects of Integrated Solution Services and Software Solution Services.

Cost of sales

The Group's cost of sales slightly increased by 1.3% from RMB183.7 million for the six months ended 30 June 2023 to RMB186.0 million for the six months ended 30 June 2024, which is comparable.

Gross profit and gross profit margin

The Group's gross profit decreased by 13.9% from RMB59.6 million for the six months ended 30 June 2023 to RMB51.3 million for the six months ended 30 June 2024, mainly due to a drop in revenue from Digitalisation Solution Services that typically contribute higher gross profit.

The Group's gross profit margin decreased from 24.5% for the six months ended 30 June 2023 to 21.6% for the six months ended 30 June 2024. This is mainly due to the decrease in proportion of the contribution in gross profit of Digitalisation Solution Services from 50.3% for the six months ended 30 June 2023 to 41.1% for the six months ended 30 June 2024.

The Group's gross profit margin of Telecommunications Infrastructure Services slightly decreased from 14.4% for the six months ended 30 June 2023 to 14.0% for the six months ended 30 June 2024, which is comparable.

The Group's gross profit margin of Digitalisation Solution Services increased from 79.2% for the six months ended 30 June 2023 to 98.1% for the six months ended 30 June 2024, mainly due to the increase in proportion of the contribution in revenue of Software Solution Services with higher gross profit margins increased from 68.5% for the six months ended 30 June 2023 to 97.6% for the six months ended 30 June 2024.

Other net income

The Group's other net income decreased from RMB2.9 million for the six months ended 30 June 2023 to RMB2.4 million for the six months ended 30 June 2024, mainly due to a decrease in interest income from contracts containing a financing component and net foreign exchange gain.

Selling expenses

The Group's selling expenses decreased from RMB1.8 million for the six months ended 30 June 2023 to RMB1.3 million for the six months ended 30 June 2024, primarily due to a decrease in tender-related fee.

Administrative expenses

The Group's administrative expenses decreased by 15.6% from RMB24.3 million for the six months ended 30 June 2023 to RMB20.5 million for the six months ended 30 June 2024, mainly due to: (1) a decrease of RMB1 million in the provision for credit impairment losses; (2) a decrease of RMB1.1 million in entertainment expenses as a result of controlling these expenses; (3) a decrease of RMB1.2 million in tax later payment charges due to no unpaid taxes due as of 30 June 2024.

Research and development expenses

The Group's research and development expenses remained stable from RMB6.0 million for the six months ended 30 June 2023 to RMB5.9 million for the six months ended 30 June 2024.

Finance costs

The Group's finance costs decreased by 14.3% from RMB9.0 million for the six months ended 30 June 2023 to RMB7.7 million for the six months ended 30 June 2024, due to a decrease in bank interest expense as a result of lower average balances on bank borrowings and lower interest rates on borrowings in the first half of 2024.

Income tax expense

The Group's income tax credit increased from RMB0.3 million for the six months ended 30 June 2023 to RMB0.4 million for the six months ended 30 June 2024.

Net profit for the period

As a result of the foregoing, the Group's net profit decreased by 14.8% from RMB21.8 million for the six months ended 30 June 2023 to RMB18.6 million for the six months ended 30 June 2024.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operating Activities

For the six months ended 30 June 2024, the Group's net cash used in operating activities was RMB43.8 million and was primarily attributable to its profit before tax of RMB18.2 million as adjusted for the following items: (i) non-cash and non-operating items, mainly including interest expenses of approximately RMB7.7 million, depreciation charges of approximately RMB1.2 million and impairment losses recognised of approximately RMB8.1 million; and (ii) net cash outflows from changes in working capital primarily resulted from increase in contract assets of approximately RMB68.1 million and increase in inventories of approximately RMB16.9 million.

Cash and Bank Balances and Borrowings

The majority of the Group's cash and cash equivalents are denominated in RMB, which amounted to approximately RMB6.6 million as at 30 June 2024, representing a decrease of approximately 91.9% from RMB81.5 million as at 31 December 2023. Such decrease was mainly due to the settlement of amounts due to shareholders of approximately RMB139.8 million and the net cash used in operating activities of approximately RMB43.8 million, which was partially offset by the capital injection from shareholders of RMB127.7 million. As at 30 June 2024, the Group's bank loans decreased from RMB347.5 million as at 31 December 2023 to RMB339.4 million as at 30 June 2024. As at 30 June 2024, the Group's bank loans comprised of: (i) RMB149 million (31 December 2023: RMB127 million) bearing interest at 4.25% per annum (31 December 2023: 4.25% per annum) and repayable within one year; (ii) RMB110 million (31 December 2023: RMB140 million) bearing interest at rates ranging from 3.95% to 4.05% per annum (31 December 2023: ranging from 3.95% to 4.15%) and repayable within one year; (iii) RMB30 million (31 December 2023: RMB30 million) bearing interest at 3.85% per annum (31 December 2023: 4.15% per annum) and repayable within one year; and (iv) RMB50 million (31 December 2023: RMB50 million) bearing interest at 5.24% per annum (31 December 2023: 5.24% per annum) and repayable within one year.

Gearing ratio

As at 30 June 2024, the gearing ratio (total borrowings divided by total equity) was 1.2 times (31 December 2023: 2.7 times). The decrease in gearing ratio was mainly due to the reserve of the Group of RMB127.7 million contributed by the controlling shareholder at the beginning of 2024.

Capital structure

The share capital of the Company consists of ordinary Shares only. As at the date of this announcement, the issued share capital of the Company is HK\$64,000,000 comprising 640,000,000 Shares of HK\$0.1 each.

Treasury policies

The Group pursues a prudent treasury management policy and actively manages its liquidity position to cope with daily operation and any demands for capital for future development. Also, the Group actively reviews and manages its capital structure on a regular basis to maintain the advantages and security of a strong capital position and adjust the capital structure in response to changes in economic conditions.

Foreign exchange risk

The Group operates its business primarily in the PRC. RMB is the currency used by the Group for valuation and settlement of all transactions. Any depreciation of RMB would adversely affect the value of any dividends paid by the Group to shareholders outside the PRC. The majority of the Group's cash and cash equivalents are denominated in RMB. The Group is currently not engaged in hedging activities that are designed or intended to manage foreign exchange risk. The Group will continue to monitor foreign exchange activities and make its best efforts to protect the cash value of the Group.

Capital commitments

The Group had no capital commitments for the six months ended 30 June 2024.

Contingent liabilities and pledge of assets

As at 30 June 2024, the Group had no contingent liabilities.

As at 30 June 2024, the carrying value of the Group's property, plant and equipment, investment properties, trade receivables and contract assets, and bank deposits pledged for bank borrowings and bank facilities was approximately RMB902.0 million. Please see note 10 to the Unaudited Interim Financial Statements.

Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

During the six months ended 30 June 2024, the Group did not make any significant investments and there were no other material acquisitions and disposal of subsidiaries, associates or joint ventures by the Group.

Future plans for material investments

The Group intends to utilise part of the net proceeds raised from the Listing to acquire or invest in other companies specialising in the provision of digitalisation solution services as part of our strategies to expand our business scale and market share. As at the date of this announcement, the Group did not have any other future plans for material investments or acquisition of capital assets.

Use of proceeds from the Global Offering

The Shares were listed on the Stock Exchange on the Listing Date and the net proceeds (after deducting related underwriting commissions and listing expenses) were received after 30 June 2024. Hence, the implementation plans as stated in the section headed “Future Plans and Use of Proceeds” in the Prospectus had not yet commenced during the six months ended 30 June 2024. The Company intends to apply net proceeds in the manner as described under the section headed “Future Plans and Use of Proceeds” in the Prospectus.

Employee and remuneration policy

As at 30 June 2024, the Group had 229 (30 June 2023: 252) employees. Total staff costs (including directors’ remuneration) for the six months ended 30 June 2024 amounted to RMB13.0 million (2023: RMB13.8 million). The Group recruits personnel from open market, mainly based on the a range of factors, including but not limited to their working experience, technical knowledge and educational background. To facilitate the recruitment of employees, the Group strives to offer competitive salaries and benefits to its employees and has policies in place to ensure that the salaries and bonuses of its employees are reviewed periodically and are competitive and in line with their performances. In respect of employee training, the Group provides its new and existing employees with relevant job training from time to time which covers health and safety and operational procedures. Where there are new industry regulations or the Group adopts or amends its policies and operating guidelines which its employees are required to adhere to, it may also provide supplemental training to its employees.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company declares that good corporate governance is essential for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**Corporate Governance Code**”) as contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code to govern its corporate governance practices.

As the Shares were not listed on the Stock Exchange as at 30 June 2024, the Corporate Governance Code did not apply to the Company during the six months ended 30 June 2024.

The Board will continue to review and monitor the Company’s practices to maintain a high standard of corporate governance, and our compliance with the Corporate Governance Code will be disclosed in future announcements and financial reports.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s relevant employees who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities.

The Shares were listed on the Stock Exchange on the Listing Date. Upon specific enquiry, all Directors confirmed that they have complied with the required standards of dealing as set out in the Model Code from the Listing Date to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Shares were listed on the Stock Exchange on the Listing Date and the Over-allotment Option was not exercised on 27 July 2024. From the Listing Date to the date of this announcement, neither the Company nor its subsidiaries have purchased, redeemed or sold any of its listed securities.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2024.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and the code provisions D.3.3 and D.3.7 as set out in the Corporate Governance Code. Its terms of reference are available on the websites of the Company and the Stock Exchange.

As at the date of this announcement, the Audit Committee consists of three members and all of them are independent non-executive Directors, namely Mr. Yu Shiyong, Mr. Li Yinguo and Mr. Zhu Yugang. Mr. Yu Shiyong is the Audit Committee’s Chairman, who has appropriate professional qualifications, accounting and related financial management expertise as required in Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company’s existing external auditor.

The Group’s interim results for the six months ended 30 June 2024 and this announcement have been reviewed by the Audit Committee. The Audit Committee is of the view that such unaudited results complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 3 July 2024, the ordinary Shares of the Company were listed on the Main Board of the Stock Exchange. 160,000,000 Shares were issued at a price of HK\$1.25 per ordinary Share (including share premium). The new ordinary Shares (before any exercise of the over-allotment option) with a nominal value of HK\$0.1 each were issued for a total cash consideration of HK\$200,000,000, before deducting underwriting fees, commissions and related expenses. 478,988,749 Shares were issued by the Company by way of capitalisation.

There were no other significant events that may affect the Group after 30 June 2024 and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.gantongjt.com) and the Stock Exchange (www.hkexnews.hk), and the interim report of the Group for the six months ended 30 June 2024 will be despatched to shareholders of the Company and published on the above websites in due course.

By Order of the Board

Zhonggan Communication (Group) Holdings Limited

Liu Haoqiong

Chairman and Executive Director

Hong Kong, 28 August 2024

As at the date of this announcement, the executive directors of the Company are Mr. Liu Haoqiong, Mr. Peng Shengqian, Ms. Xie Xiaolan, Mr. Liu Dingli, Mr. Liu Dingyi and Mr. Zhou Zhiqiang; and the independent non-executive directors of the Company are Mr. Yu Shiyong, Mr. Li Yinguo and Mr. Zhu Yugang.