江南集團有限公司
Jiangnan Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1366

ANNUAL REPORT 2011

Contents

Corporate Profile

One of the largest suppliers of electric wires and cables in China

Jiangnan Group Limited ("Jiangnan Group" or "Company", together with its subsidiaries, the "Group") is one of the largest manufacturers of wires and cables for power transmission, distribution systems and electrical equipment in China. Our products are widely used in the power industry and the general industries (including metals and mining, oil and gas, transportation, shipbuilding, construction and others). According to IBISWorld, we were the third largest manufacturers of wires and cables for power transmission and distribution systems as well as electrical equipment in China in terms of sales in 2010.

We offer over 10,000 products under three main categories, namely power cables, wires and cables for electrical equipment and bare wires. Our products carry different characteristics to meet customers' needs including low smoke zero halogen, water resistant, heat resistant, optical and electric combined, flame retardant, fire resistant, oil resistant, rodent and termite proof, all weather and radiation resistant.

Our products are primarily marketed and sold under our "" brand, which was recognized as a China Well-known Trademark (中國馳名商標) by the Trademark Office of the State Administration for Industry and Commerce of the PRC and awarded as the State Inspection-Free products. Our products were also accredited as "Customer Satisfaction Products" by China Association for Quality and National Committee for Customers.

We have strong research and development capabilities. We have established a research workstation as well as a state postdoctoral research workstation. We have also participated in the drafting and formulating of 29 national industry standards for the manufacturing processes for power cables, wires and cables for electrical equipment and bare wires. We had obtained 53 patents that are material to our business in the PRC.

With our high quality products, our renowned brand and good reputation, strong research and development capabilities, our manufacturing and production capabilities, we have maintained a solid and wide customer base including certain industry leaders in their respective industry. We have provided products for many prominent infrastructure projects, such as the National Olympic Sports Centre & 6 other stadiums for the 2008 Beijing Olympic Games, the Performance Center for the 2010 Shanghai World Expo, the Shanghai World Financial Center, the Power Transmission from West to East Project, the first ±800kV direct current transmission system from Yunnan to Guangdong, the No. 5 line of the Shenzhen Metro Project, the No. 7 line of the Shanghai Metro Project, the No. 8 line of the Beijing Metro Project and high speed railways from Fuzhou to Xiamen, to name a few. We are capable of producing cables for use in extremely low temperature environments in the polar regions, which has been recognised as a Dedicated Product for China North & South Pole Research by the China Polar Region Research Center.

Our products have been exported to more than 50 countries. In South Africa, a fast growing market for power cables, we are a qualified supplier of Eskom Holdings Limited ("Eskom"), a state-owned power generation and transmission company in South Africa. We began to supply our products to Eskom in 2007 and we are a SABS certified manufacturer wires and cables in the PRC that can supply such products to South Africa.

Corporate Information

EXECUTIVE DIRECTORS

Rui Fubin
Rui Yiping
Xia Yafang
Jiang Yongwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

He Zhisong
Wu Changshun
Yang Rongkai
Poon Yick Pang Philip

AUTHORIZED REPRESENTATIVES

Chan Man Kiu
Xia Yafang

COMPANY SECRETARY

Chan Man Kiu, HKICPA

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISORS

Conyers Dill & Pearman (Cayman Islands laws)
Leung & Lau, Solicitors (Hong Kong laws)
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COMPLIANCE ADVISER

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STOCK CODE

1366

WEBSITE

www.jiangnangroup.com

Financial Highlights

	Year ended 31 December			
	2008 (unaudited)	2009	2010	**2011**
RESULTS (RMB'000)				
Group Revenue	2,790,228	2,994,966	3,686,366	**4,929,876**
Profit for the year	70,776	163,556	231,819	**317,445**
ASSETS AND LIABILITIES (RMB'000)				
Non-current assets	277,331	346,604	408,397	**411,993**
Current assets	2,553,428	2,163,324	2,661,182	**3,773,360**
Current liabilities	2,423,364	1,929,375	2,102,216	**2,977,837**
Non-current liabilities	1,802	5,933	91,630	**25,505**
FINANCIAL RATIOS				
Net margin (%)	2.5%	5.5%	6.3%	**6.4%**
Current ratio (times)	1.05	1.12	1.27	**1.27**
FINANCIAL INFORMATION PER SHARE				
Earnings (HK cents)	7.0	16.1	23.7	**32.7**
Net assets (HK$)	0.40	0.57	0.99	**1.25**

Chairman's Statement

Group's philosophy

As one of the best known large scale wires and cables manufacturer and marketing enterprise, adhering to honesty and hard working, we aim to develop vigorously a better industry environment, to be among world-class brands and best international enterprises, to create social wealth, to realize staff value and to gain best return to the shareholders.

Results

In 2011, China's economy remained firm and stable. The continuous strong demand to enhance and extend the electricity grid network together with the increasing in electricity consumption bolstered market demand for wires and cables products. Our turnover reached RMB4,929.9 million, another record year representing an increase of 33.7% over last year. Our audited profit attributable to the owners of the Company for the year ended 31 December 2011 was RMB317.4 million, representing an increase of 36.9% over last year.

Final dividend

The Board does not recommend the payment of any final dividend for the year ended 31 December 2011.

Review of operation

Global real GDP growth in 2011 stands at approximately 3.9%, down from 4.7% in 2010. Metal prices moderated in the second half of the year. The IMF Metal Price Index[1] fell for four consecutive months between August and November 2011. In November 2011 the prices of copper, lead, nickel, tin and zinc were all down.

The Chinese government has begun the work of rebalancing the Chinese economy to encourage greater private consumption, reducing reliance on exports through its 12th Five-Year Plan announced in March 2011. Objectives include expanding consumption by reducing wealth disparities, lowering carbon emissions and promoting knowledge-based, high-tech industries. The tightening macroeconomic regulation and control and monetary policy resulted in economy slowdown in Mainland China. However the slowdown has little or insignificant impact on our business and the Group has taken measures to rebalance its reliance of revenue purely on Mainland China.

[1] *An index maintained by the International Monetary Fund that tracks prices of international traded primary metals.*

Chairman's Statement

1. Mainland China market

In line with the growth in the PRC economy and the PRC urban population, the electricity consumption level in China also shows an increasing trend. The total electricity consumption in the PRC reached approximately 4,200 billion kWh in 2010 and is continuing to grow. To match its rapidly increasing electricity consumption, the country has been investing heavily in its power generation facilities, including power grid.

In March 2011, China's National People's Congress approved the Guiding Principles of China's 12th Five-Year Plan for National Economic and Social Development (the "12th Five-Year Plan"). According to the 12th Five-Year Plan, the PRC government will accelerate the construction of modern electricity network, further increase the volume of electricity transferred from western China to eastern China, improve the regional backbone electricity network, and promote smart grid development in the five years between 2011 and 2015 (the "12th Five-Year Period").

During the 12th Five-Year Period, a key initiative of the National 12th Five-Year Plan is to expand and upgrade China's high voltage power infrastructure. The PRC government plans to construct several high voltage and ultra high voltage electricity grids across various regions of China with a target of establishing a total of 200,000 km of electricity grid during this period. Smart grid construction will also take place during the 12th Five-Year Period and approximately RMB1,600 billion is expected to be invested by the State Grid Corporation Group for the construction of smart grid infrastructure to enhance power supply through advanced grid technology. For the development of rural power infrastructure, the State Grid Corporation Group is planning to invest approximately RMB410 billion within the next five years; and China Southern Power Grid Corporation is planning to invest approximately RMB111.6 billion during the same period, for an aggregate of approximately RMB521.6 billion in planned investment in the next five years.

A key initiative of the PRC 12th "Five-Year Plan" is to expand and upgrade China's high voltage power infrastructure. In view of the potential growth for ultra high voltage cables, we have built a production facility for high and ultra high voltage cables with rated voltage of 220-500kV and have commenced commercial production since October 2011. We estimate our annual production capacity for high and ultra high voltage cables using this new facility will reach approximately 1,000 km.

We continue to supply our wires and cables to many of the industry leaders in the PRC, as we meet many stringent requirements, including, among others, obtaining all relevant qualifications, licences, certificates and permits to produce and supply products to various industries of our customers, passing comprehensive evaluations of product quality, having high research and development capabilities, providing sophisticated production processes and high quality after sales services, and maintaining a reputable brand name and successful track record in the industries of our customers.

We also provided our products to many of China's prominent infrastructure projects that require stringent quality assurance for their power supply and transmission systems. In particular, in 2011, we have provided our products for the No.8 Line of the Beijing Metro Project.

Chairman's Statement

Our capabilities in continuous innovation and product development are crucial to our success in the industry. We place great emphasis on our research and development capabilities, which the Directors of the Company ("Directors") believe is crucial to keep us ahead of our competitors. As at 31 December 2011, we had 145 engineers and technicians working on research and development projects. We continue to develop and introduce innovative products. One of our products, Class 1E control and instrumentation cable for nuclear power stations, was designated as a National Key New Product (December 2007 – December 2010), and 29 products were designated as High Technology Products. As at 3 April 2012, we had obtained 53 patents that are material to our business in the PRC and had submitted 15 additional patent applications to the State Intellectual Property Office of the PRC.

In March 2011, 無錫江南電纜有限公司 (unofficial English translation for identification purpose only, Wuxi Jiangnan Cable Co., Ltd.) ("Jiangnan Cable") was accredited as Key High Technology Enterprise of Yixing under the State Torch Program by Torch High Technology Industry Development Centre, the Ministry of Science and Technology in the PRC.

We provide over 10,000 products tailored to meet our customers' diverse needs and help us to retain customer loyalty. Driven by increasing demand of our products from our existing and new customers, in 2011, we have increased our annual production capacity of power cables from 36,000 km to 60,000 km; wires and cables for electrical equipment from 535,000 km to 540,000 km and bare wires remained at 50,000 tonnes. Our economies of scale also allow us to have a lower cost base by spreading the fixed costs (i.e. research and development, licencing and certification, selling, general and administrative expenses) among a larger output volume.

2. Overseas market

Though China is by far our largest market (accounting for approximately 91.3% of our total turnover in 2011 and 97.3% in 2010), our products have also been exported to more than 50 countries overseas. South Africa, a fast growing market for power cables, is our major overseas market (accounting for approximately 7.6% of our total turnover in 2011 and 2.6% in 2010) and Eskom, a state-owned power generation and transmission company in South Africa, has been one of our top five customers during 2009 to 2011. We began to supply our products to Eskom in 2007 and we believe that we are still the only manufacturer of wires and cables in the PRC that can supply such products to South Africa. In 2007, we entered into a five-year master supply agreement with Eskom to supply conductors with agreed estimated contract value of ZAR2.0 billion to ZAR2.3 billion (RMB1.7 billion to RMB1.9 billion) (the "2007 Agreement"). In 2010, we entered into three five-year master supply agreements with Eskom to supply medium or low voltage power cables and aerial bundled conductors with agreed estimated contract value of over ZAR300.0 million (RMB247.9 million) in total (the "2010 Agreements"). The actual quantity of goods purchased by Eskom and supplied by us and the actual prevailing price of the goods will be determined at the time of sale transaction pursuant to such agreements during the relevant five-year period. Revenue generated from our sales to Eskom accounted for approximately 1.8%, 2.0% and 6.1% of our total turnover, respectively in 2009, 2010 and 2011.

In 2011, we also began to supply our products to National Grid USA, a subsidiary of National Grid, a multinational electricity and gas company headquartered in London and with principal businesses in the UK and northeast US. Revenue generated from National Grid USA was approximately RMB19.7 million and accounted for approximately 0.4% of our total turnover for 2011. In 2011 we also began to sell to PowerWorks of Singapore and as a result Singapore contributed approximately 0.4% of our total turnover for 2011.

Chairman's Statement

Corporate governance

The Group will comply with the laws, regulations and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). With effective monitoring by the board of Directors of the Company ("Board"), and enhanced communication with the investment community, relevant information was released timely to enhance investors' knowledge and understanding about the Company and hence promoted the continual uplifting standard of corporate governance. The Company has adopted a code of corporate governance, containing the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (including those amendments which have come into effect on 1 January 2012 and 1 April 2012). The Directors will use their best endeavours to procure the Company to comply with such code of corporate governance and make disclosure of deviation from such code in accordance with the Listing Rules.

Financial management

The Group's financial management, fund management and external financing have been centrally managed and controlled at the headquarters. In line with its principles of prudent finance, as at 31 December 2011, the Group had bank balances of RMB677.9 million and had approximately RMB482.2 million pledged bank deposits. We had total borrowings of approximately RMB1,401.8 million, and a net gearing ratio of 20.5%[①]. The Group had sufficient liquidity, and was in a sound financial position. The Group also had sufficient committed but unused banking facilities of approximately RMB1,066.4 million as at 31 December 2011 to meet the need of the Group's business development.

Successful listing

The successful listing of the shares of the Company in April 2012 marked a key milestone for the Group's development. We are grateful for the investors' interest in the subscription of Company's shares. Amidst global economic volatility and weakened equity investment sentiment, the solid support from investors is a good indication of their recognition of our proven track record and our future development prospects. After our listing on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), we pledge ourselves to accelerate our pace of development and further enhance our leadership in China's wire and cable industry. With the listing, we are also committed to improve our corporate governance and transparency.

① *Net debt/Total equity: Net debt is equal to total borrowings less bank balances and pledged bank deposits.*

Chairman's Statement

Business prospects

Market conditions

The wire and cable manufacturing industry in China is in a growth phase, fundamentally driven by the fast growth of the PRC's economy as well as the PRC's accelerating trends of industrialisation and urbanisation.

In particular, we believe that the following factors have driven the growth of China's wire and cable industry in the past and will continue to play important roles in the future:

- growing demand for electricity as a result of continuous rapid economic growth, evidenced by the growth of electricity generated in China at a CAGR of approximately 12% in the 1998-08 period (as compared to a CAGR of approximately 1% for the US and a CAGR of approximately 2% for Europe in the same period), according to the National Bureau of Statistics of China;
- continuous investment and construction of the national power grid driven by urbanisation, evidenced by an increase of approximately 39.4% in the urban population from 2001 to 2010, according to the National Bureau of Statistics of China;
- extension of the national power grid to cover remote rural areas;
- replacement and upgrade of the existing national power grid;
- rapid development of renewable energy, whereby the traditional electricity production and transmission that was based on a few very large sources of energy and their connection to the grid is increasingly replaced by renewable energy where the sources are small and widely disseminated; and
- expanding industrial applications and development of various industries, including oil and gas, transportation, metals and mining, construction and others.

These drivers lead us to believe that the China market for cables and wires will continue to grow significantly in the near future.

South Africa, our major overseas market, is the African Continent's main producer of electricity, generating approximately 45% of the electricity used in Africa. It is estimated that the demand for power in South Africa will increase at a rate of 1000 MW per year and the market for cables and wires will continue to grow.

Chairman's Statement

Business strategies

We will continue to develop high-end products such as ultra high voltage cable and renewable energy products. In view of the potential growth for ultra high voltage cables, we have built a production facility with an annual capacity of approximately 1,000 km at our Yixing production base for high and ultra high voltage cables with rated voltage of 220-500kV and commenced commercial production in October 2011. We will continue to expand our high and ultra high power cable capacity by building three additional production lines with expected annual production capacity of 300 km ultra high voltage cables for each production line. We also intend to build a new production facility for aluminum alloy materials and a new production facility for double capacity conductors.

To meet the growing demand for green products, we have developed and will continue to develop environmentally friendly power cables and energy-saving wires. In addition, we will continue to develop specialty cables with enhanced features for industrial use, such as cables for mining, shipbuilding, wind power and railways.

We intend to strengthen our presence in selected overseas markets with growth potential. We will focus our efforts mainly on developing countries in Africa, South and South East Asia and Latin America. We expect high demand for our products in these markets as a result of robust mining investment and infrastructure development in these countries. We also expect operational growth in certain developed countries where we have a presence, such as the US and Singapore.

Based on our successful marketing experience in South Africa, we plan to expand our sales to its neighbouring countries. In particular, in order to benefit from the growth in South Africa and its surrounding countries, we plan to start the construction of a new manufacturing facility in South Africa with a designed annual production capacity of approximately 10,000 km power cables in the second half of 2012.

Our research and development activities will be focused on developing new products such as ultra high voltage cables, energy efficient and environmentally friendly cables. We plan to acquire more advanced machinery and testing equipment, and recruit more engineers and skilled technicians to increase our research and development capabilities. We will also expand our collaborations with renowned academic institutes and universities on new product development.

We intend to make strategic investments, form strategic alliances, and carry out acquisitions of the following to solidify and expand our market share and provide integrated solutions to our customers: (i) businesses that complement our products, technologies and customers; (ii) upstream businesses (e.g., manufacturers of copper and copper-based materials and specialty raw materials such as aluminium alloy) to better manage our material supply and costs; or (iii) downstream businesses such as installation services. We will take into consideration a number of factors including, but not limited to, the scale, profitability and synergies when assessing acquisition targets. In particular, we will look for opportunities that could bring us incremental earnings.

Chairman's Statement

Fight for stellar performance

Rising urbanisation, continuous rise in power consumption and upgrade of power grids in China as well as the support to the electricity industries by Chinese government's 12th Five-Year Plan are all favorable factors for the Group's continuous growth. As one of the three largest suppliers of electric wires and cables in China, our strengths and the solid foundation established over the years have prepared us well to capture the huge opportunities in this fast growing industry in China. Looking ahead, we shall bolster our capabilities in the high-end product segment and strategically enter the overseas market. We also aim to enlarge our presence domestically to take advantage of market consolidation and further grow our business so as to generate promising returns for our shareholders. I have the confidence and believe that I will continue to lead the Group to set record performance.

Appreciation

I would like to take this opportunity to express my gratitude to the Board for its brilliant leadership, to the shareholders for their strong support, and to the community for their enthusiastic help, and last but not least, to our staff for their dedicated efforts.

Rui Fubin

Chairman, Chief Executive Officer and Executive Director

Management Discussion and Analysis

Overall performance

For the year ended 31 December 2011, the Group's revenue recorded RMB4,929.9 million, representing a year-on-year increase of 33.7% and a net profit for the year amounted to RMB317.4 million, an increase of 36.9% over last year. Basic earnings per share were HK32.7 cents (2010: HK23.7 cents), an increase of 38.0%.

Turnover

Sales of power cables, our principal products, have recorded continuous growth with turnover of RMB3,264.7 million, and increase of 32.6% (2010 of RMB2,462.9 million) and, accounting for approximately 66.2% of our total turnover. The sales volume for power cables increased from 31,200 km in 2010 to 48,103 km in 2011 or an increase of approximately 54.2%. The average selling price of power cables decreased from RMB78,939.8 per km in 2010 to RMB67,869.9 per km in 2011 which was attributable to the increase in sales of 10kV or below aluminium-based power cables, the price level of which is in general lower than copper-based products.

Sales of wires and cables for electrical equipment also recorded growth with turnover of RMB1,101.4 million, and increase of 16.7% (2010 of RMB943.9 million) and, accounting for approximately 22.3% of our total turnover. The sales volume for wires and cables for electrical equipment remained relatively stable from 406,000 km in 2010 to 461,243 km in 2011. The average selling price of power cables also remained stable from RMB2,324.9 per km in 2010 to RMB2,388.0 per km in 2011.

Sales of bare wires have recorded significant growth with turnover of RMB563.7 million, and increase of 101.6% (2010 of RMB279.6 million) and, accounting for approximately 11.5% of our total turnover. The sales volume for bare wires increased from 19,360 tonnes in 2010 to 39,140 tonnes in 2011, representing an increase of approximately 102.2%. The increase in demand for our wires and cables in 2011 was driven by the strong demand carried forward from 2010 especially from our overseas customers. The average selling price of bare wires remained stable at approximately RMB14,400 per tonne in 2010 and 2011.

In view of the potential growth for ultra high voltage cables, we have build a production facility for high and ultra high voltage cables with rated voltage of 220-500kV with an estimated annual production capacity of approximately 1,000 km that commenced commercial production in October 2011. The introduction of this new product will help to increase our turnover and improve our gross profit margin.

Cost of Goods Sold

Cost of goods sold composes of cost of raw materials, production costs and direct labour costs. Cost of raw materials accounted for 95.9% of cost of goods sold in 2011, of which copper and aluminium are the major raw materials accounting for 78.9% of cost of goods sold in 2011. Direct labour costs remained stable and accounted for 1% of total cost of goods sold in 2011. The balance of 3.1% of the cost of goods sold in 2011 was attributable to production costs which mainly consists of depreciation of equipment used in the production process, maintenance of production lines and equipment, moulding of parts and components and other miscellaneous production-related costs.

Management Discussion and Analysis

Gross profit and gross profit margin

The gross profit increased by RMB203.8 million, or approximately 38.4%, from RMB531.1 million for the year ended 31 December 2010 to RMB734.9 million for the year ended 31 December 2011. Gross profit margin increased from approximately 14.4% for the year ended 31 December 2010 to approximately 14.9% for the year ended 31 December 2011. The increase in gross profit is in line with the increase in turnover.

Gross profit margin for power cables increased by approximately 0.7%, from approximately 15.2% for the year ended 31 December 2010 to approximately 15.9% for the year ended 31 December 2011 due to increase in sales of higher-margin products. Gross profit margin for wires and cables for electrical equipment also increased by approximately 0.3%, from approximately 14.6% for the year ended 31 December 2010 to approximately 14.9% for the year ended 31 December 2011 due to the sale of a different product mix with different profit margins. The gross profit margin for bare wires increased by approximately 2.1% from approximately 7.2% for the year ended 31 December 2010 to approximately 9.3% for the year ended 31 December 2011 due to an increase in overseas sales which has higher levels of mark-ups.

Selling and distribution costs

Selling and distribution costs mainly represent salary and welfare expense for employees involved in selling and distribution activities, transportation costs for delivery of products to customers and other selling expenses, including marketing expenses, advertising and promotion expenses and other miscellaneous expenses.

The selling and distribution costs increased by RMB10.5 million, or approximately 11.3%, from RMB92.9 million for the year ended 31 December 2010 to RMB103.4 million for the year ended 31 December 2011. The overall increase in selling and distribution costs was mainly due to an increase in transportation expenses from RMB40.6 million for the year ended 31 December 2010 to RMB54.1 million for the year ended 31 December 2011. Such increase is in line with our increase in turnover in 2011.

Administrative expenses

Administrative expenses increased by RMB25.9 million, or approximately 37.0%, from RMB70.1 million for the year ended 31 December 2010 to RMB96.0 million for the year ended 31 December 2011, mainly due to increases in labour insurance expenses and staff and welfare expenses from RMB5.8 million and RMB14.1 million, respectively, for the year ended 31 December 2010 to RMB12.9 million and RMB15.6 million, respectively, for the year ended 31 December 2011 due to contributions to the staff housing fund, an increase of medical insurance and an increase in headcount. Bank charges and exchange loss also increased from RMB1.7 million for the year ended 31 December 2010 to RMB16.8 million for the year ended 31 December 2011 mainly due to increase in fees charged by banks on bank borrowings.

Finance costs

Finance costs increased by RMB57.5 million, or approximately 83.5%, from RMB68.9 million for the year ended 31 December 2010 to RMB126.4 million for the year ended 31 December 2011 due to an increase in short-term bank borrowings and an increase in interest rates.

Management Discussion and Analysis

Taxation

Our tax expense increased by RMB19.9 million, or approximately 38.8%, from RMB51.3 million for the year ended 31 December 2010 to RMB71.2 million for the year ended 31 December 2011. This increase in tax expense was mainly due to an increase in taxable income. The effective tax rate remained stable at approximately 18.1% and approximately 18.3%, respectively, in 2010 and 2011.

Staff number and remuneration

Our remuneration policy is based on position, duties and performance of the employees. Our employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The performance appraisal cycle varies according to the positions of our employees. The performance appraisal of our senior management is conducted annually, that of our department head is conducted quarterly while that of our remaining staff will be conducted monthly. The performance appraisal is supervised by our performance management committee.

Following the Listing, the overall remuneration structure and process is expected to remain the same, except that the remuneration committee will perform such functions.

As at 31 December 2011, we had 2,051 employees with 2,037 based in the PRC and 14 based in South Africa. A breakdown of employees by function as at the same date is as follows:

Department	Number of employees
Management and administration	140
Finance and accounting	51
Procurement	23
Production and quality assurance	1,565
Sales and marketing	272
Total	2,051

Notes:

1. *Four independent non-executive Directors are not included because they are not our employees.*
2. *There are 145 engineers and technicians working on our research and development projects.*
3. *60 professional quality management personnel are included in the production and quality assurance department.*

Management Discussion and Analysis

Earnings Per Share

For the year ended 31 December 2011, the basic earnings per share was HK32.7 cents (or RMB26.5 cents), increased by 38.0% from HK23.7 cents (or RMB20.1 cents) of last year. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of RMB317.4 million (2010: RMB231.8 million) and on the weighted average number of 1,200,000,000 (2010: 1,154,985,241) ordinary shares which is determined based on the assumption that the Group Reorganisation and the capitalisation issue as disclosed in "Statutory and General Information" in Appendix V to the Company's prospectus dated 10 April 2012 ("Prospectus"), as if, have been completed on 1 January 2010, and with taking into consideration of the subscription money received from Furui Investments Limited and Sinostar Holdings Limited pursuant to the Investment Agreement (as defined in the Prospectus) on 23 November 2010.

No dilutive earnings per share are presented as there were no potential dilutive shares during 2011.

Liquidity and Financial Resources

The management and control of the Group's financial, capital management and external financing functions are centralized. The Group has been adhering to the principle of financial management.

Financial Position of the Group

1. ***Shareholders' Equity***

   The Group maintains a solid financial position, the shareholders' equity reached RMB1,182.0 million as at 31 December 2011 from RMB875.7 million as at 31 December 2010. This was mainly attributable to the 2011 net profit of RMB317.4 million.

2. ***Bank Balances and Cash***

   As at 31 December 2011, the Group had bank balances and cash of RMB677.9 million (2010: RMB622.4 million). We also had pledged bank deposits of RMB482.2 million (2010: RMB177.3 million). Majority of bank balances and cash were in Renminbi.

3. ***Borrowings***

   As at 31 December 2011, the total borrowings of the Group which consist of Renminbi bank borrowings only amounted to approximately RMB1,401.8 million (2010: RMB993.6 million), of which 100% was repayable within one year. As at 31 December 2011, the extent of fixed interest rate bank borrowings amounted to RMB649 million (2010: RMB740 million).

   During the year ended 31 December 2011, the Group had repaid bills payables under financing arrangement of RMB160 million carried forward from 31 December 2010.

   As at 31 December 2011, the Group had net borrowings of RMB241.8 million (2010: RMB353.9 million), and as a result of profit attributable to the Company in 2011, net gearing ratio (net debt/total equity, with net debt equal to the total borrowings less bank balances and pledged bank deposits) was improved from 40.4% in 2010 to 20.5% in 2011. In addition, the Group had sufficient committed but unused banking facilities of approximately RMB1,066.4 million to meet the need of the Group's business development.

   Certain bank borrowings of the Group are secured by certain of the Group's assets. The carrying values of property, plant and equipment, land use rights, inventories and bills receivables used to secure the bank borrowings as at 31 December 2011 were RMB118.7 million, RMB51.2 million, RMB165.9 million and RMB53.9 million respectively. Borrowing costs capitalised during the year ended 31 December 2011 amounting to RMB886,000.

Management Discussion and Analysis

Management Polices for Financial Risk

1. *Interest Rate Risk*

The Group's fair value and cash flow interest rate risk mainly related to fixed and variable rate borrowings respectively. In order to exercise prudent management against interest rate risk, the Group has established policies and procedures to the assessment, booking and monitoring all such financial risk. The Group will continue to review the market trend, as well as its business operations needs and its function position, so as to arrange the most effective interest risk management tools.

2. *Credit Risk*

The carrying amounts of trade and other receivables, bills receivables and bank and cash balances including pledged bank deposits included in the combined statements of financial position represent our exposure to credit risk in relation to our financial assets.

Our credit risk is primarily attributable to our trade and other receivables. We have policies in place to ensure that sales are made to customers with an appropriate credit assessment. In addition, our Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. At 31 December 2011, the five largest trade and bills receivables represent approximately 12% (2010: 5%) of the total trade and bills receivables.

We believe that credit risk on bank balances and deposits or bills receivables is limited because of the counterparties are several state-owned banks with good reputation with high credit-ratings assigned by international credit-rating agencies.

3. *Commodity risk*

Since commodities such as copper and aluminium are one of the most important components of our cost of goods sold, our financial results and condition are subject to the fluctuations in the prices of commodities. While we may be able to partially offset these fluctuations with a flexible pricing policy and a production cost locking mechanism, we are exposed to the risks of the fluctuations in the costs of these materials in the event that we fail to pass on such costs to our customers. We believe we have successfully passed on most of the risk to our customers and as a result, we have been able to maintain our gross profit margin in the past.

4. *Foreign currency risk*

We have certain transactions that are denominated in foreign currencies, which make our results of operation susceptible to foreign currency risk. During the year ended 31 December 2011, sales denominated in currencies other than the functional currency of the group entity which it relates represented approximately 8% of our sales. As a result of our increasing sales to overseas markets, we are mainly exposed to currency fluctuations mainly in the US dollar.

During the year ended 31 December 2011, we did not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Management Discussion and Analysis

Future Plans for Material Investments

We intend to continue to grow our business through the following expansion plan:

Expansion plan	Location	Status of obtaining necessary Government approval	Project status	Expected production capacity	Total investment amount incurred and to be incurred	Source of funding
Construction of three additional production lines for high and ultra high voltage cables with rated voltage of 220-500kV	Yixing, China	Obtained	Construction to commence in the second half of 2012, and commercial production to commence in the first half of 2013	300 km ultra high voltage cables per annum for each production line	Incurred investment amount: None as at the Latest Practicable Date Estimated further investment amount: RMB173.0 million (equivalent to approximately HK$213.6 million)	Net proceeds from the New Issue (as defined in the Prospectus), internal resources and bank borrowings
Construction of manufacturing facility in South Africa	South Africa	Plan to apply in the second quarter of 2012	Construction to commence in the second half of 2012 and expected to be completed around the second quarter of 2013; Commercial production to commence in the third quarter of 2013	10,000 km of power cables, wires and cables for electrical equipment and bare wires	Incurred investment amount: None as at the Latest Practicable Date Estimated further investment amount: RMB100.0 million (equivalent to approximately HK$123.5 million)	Net proceeds from the New Issue (as defined in the Prospectus), internal resources and bank borrowings
Construction of production facilities for aluminium alloy and double capacity conductors	Yixing, China	Obtained	Construction to commence in the second half of 2012 and commercial production to commence in the first half of 2013	70,000 tonnes aluminium alloy and 30,000 tonnes double capacity conductors per annum	Incurred investment amount: None as at the Latest Practicable Date Estimated further investment amount: RMB160.0 million (equivalent to approximately HK$197.5 million)	Net proceeds from the New Issue (as defined in the Prospectus), internal resources and bank borrowings

Management Discussion and Analysis

Property interest

We have included a property valuation report in Appendix III of the Prospectus, the market value of our property interest as at 31 January 2012 for the purpose of incorporation into the Prospectus was RMB304.8 million. The additional depreciation charge against the income statement for the year ended 31 December 2011 had those assets been stated at such valuation on 1 January 2011 would be RMB3,618,890.

Contingent liabilities

We had no material contingent liabilities as at 31 December 2011. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

Board of Directors and Committees

Board of Directors

Mr. Rui Fubin (芮福彬), Chairman, executive director and chief executive officer

Mr. Rui Fubin, aged 63, was appointed as our Director on 4 January 2011, appointed as our Chairman and chief executive officer on 25 February 2012 and our executive Director on 20 April 2012. Mr. Rui is primarily responsible for the formulation of our development strategies and supervision of our overall business and operation management. Mr. Rui has over 25 years of experience in the wire and cable industry in the PRC. Since March 2004, Mr. Rui has been the chairman of Jiangnan Cable and been responsible for overall management of production, operation, sales and administration matters in the Company. From August 1997 to February 2004, he was the chairman of 無錫市江南線纜有限公司 (unofficial English translation for identification purpose only, Wuxi Jiangnan wire and Cable Co., Ltd.) ("Wuxi Jiangnan"). He has been a director of Extra Fame Group Limited ("Extra Fame") since December 2005, a director of Jiangnan Cable (HK) since December 2010 and a director of Jiangnan Cable and Power Heritage Group Limited ("Power Heritage") since February 2004. From May 1994 to October 1998, he was the deputy mayor of Guanlin Town People's Government of Yixing City. From January 1989 to January 1995, Mr. Rui was the factory director of Wuxi City Jiangnan Cable Factory and played a role in the overall management of the factory. From January 1982 to December 1988, Mr. Rui was the director of Yixing City Guanlin Society Welfare Factory, a company partially engaged in the production and sales of wire and cable. Mr. Rui completed two-year's adult education in the Nanjing University of Finance and Economics (formerly known as Jiangsu Cadre's Institute of Economic and Management on a part-time basis in May 1992, majoring in industrial economic management. Mr. Rui was qualified as a senior economist by the Jiangsu Province Personnel Department in November 2007.

Mr. Rui has obtained several awards, including China Outstanding Entrepreneur by the China Enterprise Culture Improvement Association, The Fifth China Township Entrepreneur Award by the Ministry of Agriculture of PRC and Top Ten Headline Figures of China Economy by the Economic Daily in 2004. Mr. Rui is the father of our executive Director and general manager (marketing and sales), Mr. Rui Yiping. Mr. Rui is the uncle of the spouse of Mr. Jiang Yongwei, our executive Director and vice president. Mr. Rui Fubin is a director of Power Heritage, a shareholder of the Company which has an interest in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong.

Mr. Rui Yiping (芮一平), executive director and general manager (marketing and sales)

Mr. Rui Yiping, aged 32, was appointed as our Director on 4 January 2011, appointed as our general manager (marketing and sales) on 25 February 2012 and our executive Director on 20 April 2012. Mr. Rui is responsible for our sales operation. He has over 12 years of experience in wire and cable industry in the PRC. Since March 2004, Mr. Rui has been the director of Jiangnan Cable. Mr. Rui joined Wuxi Jiangnan as a sales manager in January 2000 and he then held various positions including vice general manager, director, president and deputy chairman from 2002 to 2010. During this tenure, Mr. Rui was responsible for sales and daily management of the company and gained rich experience in the electrical wire and cable industry. He has been a director of Extra Fame since March 2006, a director of SA Asia Cable (Proprietary) Limited ("SA Asia Cable") since June 2005, a director Jiangnan Cable (HK) Limited ("Jiangnan Cable (HK)") since December 2010 and a director of Jiangnan Cable and Power Heritage since February 2004. Mr. Rui graduated from the China Central Radio & Television University with an associate degree in law on a part-time basis in July 2006. He was qualified as a senior economist by the Jiangsu Province Personnel Department in November 2005. Mr. Rui was named as a China Outstanding Entrepreneur by

Board of Directors and Committees

the International Enterprise Development China Promotion Committee and China Excellent Enterprise Network in 2006. Mr. Rui Yiping is the son of Mr. Rui Fubin, our Chairman, executive Director and chief executive officer, and a cousin of the spouse of Mr. Jiang Yongwei, our executive Director and vice president. Mr. Rui Yiping is a director of Power Heritage, a shareholder of the Company which has an interest in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. Xia Yafang (夏亞芳), executive director and executive vice president

Ms. Xia Yafang, aged 39, was appointed as our Director on 26 January 2011, appointed as our executive vice president on 25 February 2012 and our executive Director on 20 April 2012. She joined us in 2004. Ms. Xia is in charge of our overall day to day operations. She was appointed as chief engineer of Jiangnan Cable in August 2011. Ms. Xia has nearly 20 years of experience in the wire and cable industry in the PRC. From April 2001 to January 2004, she was a director of technology department and vice general manager of Wuxi Jiangnan. From March 1996 to March 2001, Ms. Xia was the engineer for cable research technology and the director of cross-linked cable factory of Wuxi Far East Cable Factory. During this tenure, Ms. Xia was in charge of production and daily operations of the factory. From July 1992 to February 1996, Ms. Xia worked at Wuxi City Jiangnan Cable Factory as a technician. Ms. Xia graduated from Nanjing Jinling Institute of Technology (formerly known as Nanjing Polytechnic University with an associate degree in mechanical and electrical engineering in July 1992. Ms. Xia was qualified as a senior economist in November 2005 and senior engineer in September 2007, both by the Jiangsu Province Personnel Department. Ms. Xia is the spouse of Mr. Han Wei, our vice general manager.

Mr. Jiang Yongwei (蔣永衛), executive director and vice president

Mr. Jiang Yongwei, aged 45, was appointed as our vice president and our Director on 25 February 2012 and our executive Director on 20 April 2012. Mr. Jiang joined us in February 2004. He is the head of our production department responsible for our production management. He has over 20 years of experience in the wire and cable industry in the PRC. Mr. Jiang has been a director of Jiangnan Cable since February 2004. Mr. Jiang served as vice general manager of Wuxi Jiangnan from August 1997 to February 2004 and was responsible for overall production. From January 1990 to July 1997, Mr. Jiang was a director of infrastructure department of Wuxi Jiangnan. Mr. Jiang graduated from Southeast University with a master's degree in business administration in July 2004. Mr. Jiang was qualified as a senior economist in November 2005 by the Jiangsu Province Personnel Department. The spouse of Mr. Jiang Yongwei is the niece of Mr. Rui Fubin, our Chairman, executive Director and chief executive officer, and his spouse is a cousin of Mr. Rui Yiping, our executive Director and general manager (marketing and sales).

Independent non-executive Directors:

Mr. He Zhisong (何植松)

Mr. He Zhisong, aged 42, was appointed as our Director on 25 February 2012 and appointed as our independent non-executive Director on 1 March 2012. Mr. He is a partner of Beijing Kaiwen Law Firm. From July 1996 to February 2002, he worked for the Justice Bureau of Zhuhai, Guangdong. From November 1994 to July 1996, he was a partner of Zhuhai Sanlian Law Firm. From July 1992 to November 1994, Mr. He worked in the government of the Jinwan (formerly known as Sanzao) district of Zhuhai. Mr. He obtained a bachelor's degree and a master's degree in law from Southwest University of Political Science and Law and Renmin University of China in July 1992 and July 1999, respectively.

Board of Directors and Committees

Mr. Wu Changshun (吳長順)

Mr. Wu Changshun, aged 51, was appointed as our Director on 25 February 2012 and appointed as our independent non-executive Director on 1 March 2012. Mr. Wu has worked at the Shanghai Cable Research Institute since April 1988 and held various positions, including vice head and vice chief engineer. He has also been an independent director of Jiangsu Yuanyang Dongze Cable Co., Ltd. since 21 November 2009. Mr. Wu is currently a member of Sub-special Committee of High Voltage Testing of the Chinese Society of Electrical Engineering High Voltage Special Committee, a member of National Standardization Technical Committee of Electrical Accessories, a member of National Standardization Technical Committee of Wire and Cable, a member of Shanghai Electrical Insulation and Thermal Aging Key Laboratory Academic Committee and a member of Wire and Cable Engineering Research Centre Committee of Jiangsu Province. Mr. Wu obtained a bachelor's degree in engineering in July 1985 and a master's degree in engineering in April 1988, from Xi'an Jiaotong University, respectively. Mr. Wu was accredited as a senior engineer (professor level) by the Shanghai Project Series Industrial Production Senior Engineer (Lecturer Level) Qualification Jury in July 2005.

Mr. Yang Rongkai (楊榮凱)

Mr. Yang Rongkai, aged 52, was appointed as our Director on 25 February 2012 and appointed as our independent non-executive Director on 1 March 2012. Mr. Yang has served as the head of the Electric Equipment Inspection and Test Centre Cable Quality Inspection Station of State Grid Electric Science Research Institute (formerly known as Wuhan High Voltage Research Institute, which was then renamed as "State Grid Wuhan High Voltage Research Institute" in 2007 and was subsequently merged with State Grid Nanjing Automation Research Institute and named as State Grid Electric Science Research Institute in 2008 (hereinafter called "Electric Science Research Institute")) since July 2008. Mr. Yang has been a member of the Preparatory Team for the Cable Group of the State Grid Electric Power Research Institute since April 2011 and is currently a member of the Preparatory Team for the Cable Group of the State Grid Electronics Research Institute. He was the deputy chief of the Cable Technology Research Institute and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute from January 2007 to July 2008. From December 2005 to December 2006, he was the chief engineer of Cable Technology Research Centre and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute. During October 1985 to December 2006, Mr. Yang held various positions in Electric Science Research Institute, including engineer, senior engineer, and is now the deputy chief of the Cable Quality Inspection Station. He was appointed as the deputy secretary general at the Electricity Industry Electricity and Cable Standardisation Technology Committee in June 2001. Mr. Yang graduated from the China Electric Power Research Institute with a master's degree in engineering in December 1985. Mr. Yang was qualified as a senior engineer by the Department of Electric Power of Electric Science Research Institute in December 1992.

Board of Directors and Committees

Mr. Poon Yick Pang Philip (潘翼鵬)

Mr. Poon Yick Pang Philip, aged 42, was appointed as our Director on 25 February 2012 and appointed as our independent non-executive Director on 1 March 2012. Mr. Poon has over 18 years of experience in corporate finance and accounting. Mr. Poon joined Real Nutriceutical Group Limited (stock code: 2010), a company listed on the Main Board of the Stock Exchange in June 2008 as the chief financial officer and company secretary. Mr. Poon has been serving as an independent non-executive director of Infinity Chemical Holdings Company Limited (stock code: 640) since March 2010, a company listed on the Main Board of the Stock Exchange. Mr. Poon has become an independent non-executive director of Trigiant Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1300), with effect from 23 August 2011. From 2007 to 2008, he was the director of finance of China Medical Technologies, Inc., a NASDAQ listed company engaged in the manufacture and sale of advanced medical devices in China. From 2002 to 2007, he worked as the senior vice president, qualified accountant and company secretary of Paradise Entertainment Limited (stock code: 1180), a company listed on the Main Board of the Stock Exchange. Mr. Poon also served various positions in Advent International Corporation, a global private equity firm, and in major listed companies in Hong Kong, including Lenovo Group Limited (stock code: 992), a company listed on the Main Board of the Stock Exchange, and Sun Hung Kai Properties Limited (stock code: 16), a company listed on the Main Board of the Stock Exchange. Mr. Poon obtained a bachelor's degree in commerce from the University of New South Wales in April 1993 and is a holder of a chartered financial analyst charter of the CFA Institute, a certified practising accountant (Australia) and a fellow of the Hong Kong Institute of Certified Public Accountants.

Committees

There are four Board committees. The table below provides membership information of these committees on which each Board member serves:

Board committee Director	Audit committee	Remuneration committee	Nomination committee	Corporate governance committee
Rui Fubin				C
Rui Yiping		M	M	M
Jiang Yongwei				M
He Zhisong	M	M	M	
Wu Changshun	M	C	C	
Yang Rongkai	M	M	M	
Poon Yick Pang Philip	C	M	M	

Notes:

C: Chairman of the relevant Board committees

M: Member of the relevant Board committees

Board of Directors and Committees

Senior Management

Mr. Rui Fengming, aged 58, is our vice general manager. Mr. Rui joined us in February 2004 and has been the executive vice general manager of Jiangnan Cable. Mr. Rui is responsible for our sales and marketing. Mr. Rui also served as director and deputy manager of Wuxi Jiangnan from August 1997 to May 2010, in charge of sales of wire and cable products. From July 1986 to July 1997, Mr. Rui worked at Wuxi City Jiangnan Cable Factory and was responsible for sales of wire and cable in the factory. From July 1973 to June 1986, he was a technician of the Yixing Guanlin Food Station, being responsible for sales. Mr. Rui graduated from Jiangsu Yixing Guanlin High School in July 1973. Mr. Rui Fengming does not have any relationship with our Directors.

Mr. Han Wei, aged 43, is our vice general manager in charge of sales. Mr. Han joined us in February 2004. From January 2001 to January 2004, Mr. Han worked in Wuxi Jiangnan and was a vice general manager. During this tenure, he was responsible for sales of wire and cable. From January 1996 to December 2000, he was the director of Wuxi Far East Cable Factory (Rubber Branch) and was in charge of production and daily management. From July 1992 to December 1995, Mr. Han worked at Wuxi City Jiangnan Cable Factory and held various positions, including deputy head of equipment procurement department and deputy head of rubber and cable workshop. Mr. Han graduated from Nanjing Jinling College of Technology (formerly known as Nanjing Jinling Vocational College with an associate's degree in mechanical and electrical engineering in July 1992. Mr. Han was qualified as a senior economist in November 2005 and senior engineer in September 2009, both by the Jiangsu Province Personnel Department. Mr. Han is the spouse of Ms. Xia Yafang, our executive Director and executive vice president.

Mr. Chan Man Kiu, aged 50, is our chief financial officer and company secretary. Mr. Chan joined us in January 2011. Mr. Chan has over 26 years of experience in the field of finance and operations. Since 2004, Mr. Chan has served as an independent non-executive director in Ming Fung Jewellery Group Limited (stock code: 860), a company listed on the Main Board of the Stock Exchange. From June 2007 to December 2010, Mr. Chan served as deputy chief operating officer in Xinhua Sports and Entertainment Limited. From March 2001 to May 2007, Mr. Chan was the finance director and managing director in business development of Xinhua Finance Limited. From January 1990 to February 2001, he held different managerial roles in Jardine Fleming. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained his Professional Diploma in Accountancy from the Hong Kong Polytechnic in November 1984 and EMBA from the City University of Hong Kong in November 2003.

Mr. Qiu Tianhua, aged 56, is our vice general manager. Mr. Qiu joined us in February 2004. He is responsible for accounting and financial matters of Jiangnan Cable. From August 1997 to January 2004, Mr. Qiu served Wuxi Jiangnan as director of the financial department. From January 1992 to July 1997, Mr. Qiu was a senior accountant of Wuxi Jiangnan Cable Factory. From January 1990 to December 1991, Mr. Qiu was an accountant in Yixing Guanlin Town Industry Corporation. From January 1983 to December 1989, he worked in Yixing Guanlin Guest Hotel as a senior accountant. Mr. Qiu was qualified as an associate certified public accountant by Wuxi Personnel Bureau in August 1997. Mr. Qiu graduated from Yixing Guanlin High School in July 1974.

Corporate Governance Report

Corporate governance practices

The board of directors (the "Board") of the Company recognizes that good corporate governance is fundamental to the smooth and effective operation of the Group and enhances the shareholders' value. The Board is committed to maintain a good corporate governance practice and procedures so as to increase its transparency.

As the shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 20 April 2011 ("Listing Date") and hence was not required to comply with the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2011.

The directors of the Company ("Directors") recognise the importance of good corporate governance in management and internal control procedures so as to achieve accountability.

Prior to the Listing Date, the Company has adopted a code of corporate governance, containing the code provisions of the CG Code contained in Appendix 14 to the Listing Rules (including those amendments which have come into effect on 1 January 2012 and 1 April 2012). The Directors will use their best endeavours to procure the Company to comply with such code of corporate governance save for the deviation below and make disclosure of deviation from such code in accordance with the Listing Rules.

Pursuant to code provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer, with Mr. Rui Fubin currently performing these two roles. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Company and its subsidiaries ("Group") and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently.

Board of directors

The Group is governed by the Board. The Board is responsible for overall management of the Group's business. The Board focuses on the overall strategies, policies and business plans of the Group, monitors the financial performance, internal controls and risk management of the Group. Senior Management is responsible for the day-to-day operations of the Group under the leadership of the Executive Directors.

The composition of the Board is set out in the section "Board of Directors and Committees" above.

Other than non-executive Directors, all executive Directors are appointed on a full-time basis and have sufficient time to deal with the affairs of the Company. All Directors are required to comply their responsibilities as Directors and their common law duty as directors. More than one-third of the Board is independent non-executive Directors.

The independent non-executive Directors possess appropriate professional qualifications and experience or appropriate accounting or relevant financial management expertise. All independent non-executive Directors have submitted annual confirmations of their independence to the Board pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Board considers all independent non-executive Directors to be independent.

Corporate Governance Report

Non-executive directors' term of office

The non-executive directors are appointed on a term of three years commencing on 1 March 2012. Pursuant to the articles of association of the Company, all Directors (including non-executive Directors) appointed by the Board shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board), and shall be eligible for re-election at that meeting. All directors shall be subject to retirement by rotation at least once every three years and the retiring director shall be eligible for re-election.

Remuneration committee

On 25 February 2012, the Company has established a remuneration committee ("Remuneration Committee") which has written term of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The main functions of the Remuneration Committee include: (i) to make recommendations to the Board on the Company's policy and structure for all of the Directors, and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve management remuneration proposal with reference to the Board's corporate goals and objectives; (iii) to make recommendations to the Board on the remuneration of the non-executive Directors; and (iv) to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that they are consistent with relevant contracted terms and are otherwise reasonable and appropriate. The written terms of reference for the Remuneration Committee are posted on the Company's and the Stock Exchange's website.

Nomination committee

On 25 February 2012, the Company has established a nomination committee ("Nomination Committee") which has written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The main objectives of the Nomination Committee are to implement a formal, transparent and objective procedure for appointing Board members and evaluating each Board member's performance and to provide clear disclosure of the Company's policies on nomination and evaluation of Board members in its annual report. Its primary functions include: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular, the chairman and the chief executive; (iii) to assess the independence of the independent non-executive Directors; and (iv) to keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring continued ability of the Company to compete effectively in the marketplace. The written terms of reference for the Nomination Committee are posted on the Company's and the Stock Exchange's website.

Corporate Governance Report

Audit committee

On 25 February 2012, the Company has established an audit committee ("Audit Committee") that has written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The main objective of the Audit Committee is to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries to act in the interest of the shareholders as a whole. Its primary duties include: (i) to consider and make recommendation to the Board on the appointment, reappointment and removal of the Company's external auditor; (ii) to approve the remuneration and terms of engagement of the Company's external auditor and any questions of resignation or dismissal of the Company's external auditor; (iii) to review the Company's financial controls, internal control and risk management systems; (iv) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them; and (v) to review and monitor the Company's external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards. The written terms of reference for the Audit Committee are posted on the Company's and the Stock Exchange's website.

Corporate governance committee

On 25 February 2012, the Company has established a corporate governance committee ("Corporate Governance Committee") which has written terms of reference as suggested under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The main functions of the Corporate Governance Committee include: (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of directors and senior management of the Group; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group. The terms of reference of the Corporate Governance Committee are posted on the Company's and the Stock Exchange's website.

Directors' securities transactions

The Company has adopted a code on securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

Corporate Governance Report

Accountability and audit

The Management should provide such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge that they are responsible for preparing accounts for each financial period which give a true and fair view of the state of affairs of the Group.

The responsibilities of Deloitte Touche Tohmatsu, Certified Public Accountants, the Auditor of the Company, are stated in the Independent Auditor's Report of the Company's 2011 Annual Report.

Shareholders

The Company has established various/a wide range of communication channels with its shareholders. These include general meeting, financial reports (annual report and interim report), notice, announcement and circular. In addition, the Company updates its website from time to time to keep its shareholders updated information of the Company's recent development.

Investor relations and communication

The Company has been striving to maintain high transparency and communicate with shareholders and investors through diversified communication channels. The Company will hold press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to investors. The website of the Company contains the latest data and information of the Group so that shareholders, investors and the public can inspect the information about the Company in a timely manner. The Company's website: http://www.jiangnangroup.com.

Directors' Report

The Directors present their annual report and the audited combined financial statements for the year ended 31 December 2011.

Principal activities

The Company acts as an investment holding company and its subsidiaries now comprising the Group are principally engaged in manufacture of and trading in wires and cables for power transmission, distribution systems and electrical equipment. The activities of its subsidiaries, are set out in note 33 to the combined financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2011 are set out in the combined statement of comprehensive income on page 48.

The Group had undergone group reorganisation (the "Group Reorganisation") details of which are set out in paragraph headed "Reorganisation" in Appendix V to the prospectus dated 10 April 2012 issued by the Company. Although the Group resulting from the above mentioned Group Reorganisation did not exist until 25 February 2012, the directors of the Company consider that meaningful information as regards to the historical performance of the group is provided by treating the group resulting from the Group Reorganisation as a continuing entity as if the group structure as at 25 February 2012 had been in existence from the beginning of the year ended 31 December 2010.

No interim dividend was paid to the shareholders during the year ended 31 December 2011. The Directors do not recommend the payment of any final dividend to the shareholders.

Financial summary

A summary of the results, assets and liabilities of the Group for the past three financial years is set out on page 92.

An analysis of the Group's results by segment for the year ended 31 December 2011 is set out in note 7 to the combined financial statements.

Property, plant and equipment

Details of movements during the year ended 31 December 2011 in the property, plant and equipment of the Group are set out in note 15 to the combined financial statements.

Property interest

We have included a property valuation report in Appendix III to the Prospectus, the market value of our property interest as at 31 January 2012 for the purpose of incorporation into the Prospectus was RMB304.8 million. The additional depreciation charge against the income statement for the year ended 31 December 2011 had those assets been stated at such valuation on 1 January 2011 would be RMB3,618,890.

Share capital

Details of movements during the year ended 31 December 2011 in the share capital of the Company are set out in note 27 to the combined financial statements.

Share premium and reserves

Details of movements during the year ended 31 December 2011 in the share premium and reserves of the Group are set out on page 50.

As at 31 December 2011, the Company did not have reserves available for distribution to shareholders.

Directors' Report

Directors

The Directors during the year and up to the date of this report were:

Chairman, Chief Executive Officer and Executive Director

Mr. Rui Fubin (appointed as a Director on 4 January 2011)

Executive Directors

Mr. Rui Yiping (appointed as a Director on 4 January 2011)

Ms. Xia Yafang (appointed as a Director on 26 January 2011)

Mr. Jiang Yongwei (appointed as a Director on 25 February 2012)

Independent Non-executive Directors

Mr. He Zhisong (appointed as a Director on 25 February 2012)

Mr. Wu Changshun (appointed as a Director on 25 February 2012)

Mr. Yang Rongkai (appointed as a Director on 25 February 2012)

Mr. Poon Yick Pang Philip (appointed as a Director on 25 February 2012)

In accordance with Article 84(1) of the Company's Articles of Association, Mr. Rui Fubin, Mr. Rui Yiping and Ms. Xia Yafang shall retire by rotation at the forthcoming annual general meeting of the Company, and being eligible, offer themselves, for re-election.

The Directors' biographical information is set out on pages 19 to 22.

Information regarding directors' emoluments is set out in note 12 to the combined financial statements.

Confirmation of independence

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Based on such confirmations, the Company still considers the independent non-executive Directors to be independent.

Directors' service contracts

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he/she agreed to act as a Director for a fixed term of three years with effect from 20 April 2012 ("Listing Date"). Each of the independent non-executive Directors has been appointed for a fixed term of three years with effect from 1 March 2012.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with the Company or any of the subsidiaries of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Directors' Report

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company

As at 31 December 2011, the shares of the Company were not listed in the Stock Exchange.

As at 25 April 2012, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and associated corporations (within the meaning of Part XV of the Securities Future Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong) as recorded in the register maintained by the Company under section 352 of the SFO, or which were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Long positions

Name of director	The Company/Name of association corporations	Capacity/Nature of interest	Number and class of shares in the Company/ associated Corporations	Approximate percentage of interest
Rui Fubin	The Company	Interest of controlled corporation	1,103,400,000 ordinary shares *(Note)*	71.72%
Rui Fubin	Power Heritage Group Limited	Beneficial owner	83 ordinary shares	83%
Rui Yiping	Power Heritage Group Limited	Beneficial owner	17 ordinary shares	17%

Note: These shares were registered in the name of Power Heritage Group Limited, which is owned as to 83% by Mr Rui Fubin and 17% by Mr Rui Yiping.

Save as disclosed above, none of the Directors and chief executives of the Company, or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations as at the date of this report.

Substantial shareholders

As at 31 December 2011, the shares of the Company were not listed in the Stock Exchange.

As at the date of this report, the register of substantial shareholders maintained by the Company under section 336 of the SFO recorded that the following shareholders had an interest or a short position in the shares or underlying shares of the Company which were required to notify the Company or who were expected, directly or indirectly, to be interested in 10% or more the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Long positions of substantial shareholders in the shares of the Company

Name of shareholder	Capacity	Number of ordinary shares held	% of shares in issue
Mr. Rui Fubin	Interest of controlled corporation	1,103,400,000	71.72%
Power Heritage Group Limited	Beneficial owner	1,103,400,000 *(Note 1)*	71.72%
Ms. Shi Mingxian	Interest of spouse *(Note 2)*	1,103,400,000	71.72%

Notes:

(1) These shares are registered in the name of Power Heritage Group Limited, a company which is owned as to 83% by Mr. Rui Fubin and 17% by Mr. Rui Yiping. Under the SFO, Mr. Rui Fubin is deemed to be interested in all the Shares held by Power Heritage.

(2) Under the SFO, Ms. Shi Mingxian, the spouse of Mr. Rui Fubin, is deemed to be interested in all the shares in which Mr. Rui Fubin is interested in.

During the year ended 31 December 2011, the shares of the Company were not listed on the Stock Exchange and hence, there were no connected transactions or continuing connected transactions (both within the meanings under Chapter 14A of the Listing Rules) entered into by the Group.

Contracts of significance

No contracts of significance to which the Company, its holding company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2011.

Directors' interests in competing business

During the year ended 31 December 2011 and up to the date of this report, none of the Directors had an interest in any business which competes or may compete with the business in which the Group is engaged.

Management contracts

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2011.

Arrangement to purchase shares or debentures

Save as disclosed in this report, at no time during the year ended 31 December 2011 and up to the date of this report, neither the Company nor any of its holding companies was a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Emolument policy

Our emolument policy is based on position, duties and performance of the employees Emolument or remuneration may include salary, overtime allowance, bonus and various subsidies.

The emolument of the Directors are determined, having regard to the Company's operating results, individual performance and comparable market trend.

Directors' Report

Retirement benefit scheme

With effect from 1 May 2011, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The Assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. During the year ended 31 December 2011, the Group made contribution to the MPF Scheme amounting to approximately HK$12,000.

No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules since the Listing Date and up to the date of this report.

Charitable donations

Charitable donations made by the Group during the year under review amounted to RMB18,000 (2010: RMB515,000).

Major customers and suppliers

For the year ended 31 December 2011, the Group's largest customer accounted for approximately 6.1% (2010: 2.0%) of the Group's revenue and the five largest customers of the Group accounted for approximately 11.3% (2010: 6.8%) of the Group's revenue. For the year ended 31 December 2011, the Group's largest supplier accounted for approximately 31.8% (2010: 27.9%) of the Group's purchases and the five largest suppliers of the Group accounted for 78.7% (2010: 77.6%) of the Group's purchases for the year.

Other than disclosed above, at no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Purchase, sale or redemption of the company's listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since 20 April 2012, the date on which the shares of the Company were listed on the Main Board of the Stock Exchange.

Events after the reporting period

The following events took place subsequent to 31 December 2011:

(a) On 25 February 2012, by resolution of the then sole shareholder of the Company, Power Heritage Group Limited ("Power Heritage"), the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 9,990,000,000 shares of HK$0.01 each.

(b) On 25 February 2012, all the shareholders of Extra Fame Group Limited ("Extra Fame"), namely, Power Heritage, Furui Investments Limited ("Furui Investments) and Sinostar Holdings Limited ("Sinostar"), entered into a share transfer agreement with the Company, pursuant to which the shareholders of Extra Fame transferred the entire issued share capital of Extra Fame to the Company. On 25 February 2012, as the consideration of the acquisition, the Company issued and allotted 9,579,999, 231,000 and 189,000 new shares of the Company to Power Heritage, Furui Investments and Sinostar, respectively, and credited one nil paid share of the Company held by Power Heritage as fully paid. As a result, the Company was held as to 95.8% by Power Heritage, 2.31% by Furui Investments and 1.89% by Sinostar.

(c) On 25 February 2012, shareholders' written resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all Shareholders passed on 25 February 2012" in Appendix V to the prospectus of the Company dated 10 April 2012 ("Prospectus") which includes, conditional upon the granting of the Listing by the Listing Committee of the Stock Exchange and the conditions in the Underwriting Agreements (as defined in the Prospectus) being fulfilled, 1,190,000,000 shares are to be issued and allotted to the Shareholders by way of capitalisation of the sum of HK$11,900,000 (approximately RMB9,639,000) standing to the credit of the share premium account of the Company, such shares ranking pari passu in all respect with the existing issued shares of the Company.

(d) The Company's shares were listed on the Main Board of the Stock Exchange on 20 April 2012. The Company issued 338,600,000 new shares of nominal value of HK$0.01 each under the Global Offering (as defined in the Prospectus).

Directors' Report

Use of net proceeds from the Company's Global Offering

The Company issued 338,600,000 new shares of nominal value of HK$0.01 each in connection with the listing of the Company's shares on Main Board of the Stock Exchange on 20 April 2012. The Company will apply the net proceeds, after deducting related expenses, from such new issue in the manner as set out in the Prospectus. As at the date of this report, such net proceeds have not yet been utilised.

Bills financing

In the past we have engaged in non-compliance bills financing. We ceased entering into any new non-compliant bill financing transactions in November 2010 and settled all related bills in April 2011. Since the cessation of the non-compliant bill financing transactions, we have undertaken a series of measures to ensure such non-compliant bill financing arrangements will not occur in the future. Our independent consulting firm performed a follow-up assessment of internal controls over the procedure for bill financing management in November 2011. Our independent consulting firm has conducted a subsequent assessment in this respect in January 2012. There were no deficiencies found in the review of our bill financing management conducted by our independent consulting firm.

Auditor

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2011. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Rui Fubin

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 27 April 2012

Independent Auditor's Report on the Company's Financial Statements

Deloitte.
德勤

TO THE DIRECTORS OF JIANGNAN GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Jiangnan Group Limited (the "Company") set out on pages 37 to 45, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 4 January 2011 (date of incorporation) to 31 December 2011, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report on the Company's Financial Statements

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2011 and of its result and cash flows for the period from 4 January 2011 (date of incorporation) to 31 December 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

10 April 2012

Statement of Comprehensive Income

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

	Note	RMB
Income		–
Profit and total comprehensive income for the period	4	–

Statement of Financial Position

At 31 December 2011

	Note	RMB
Non-current assets		–
Current assets		–
Current liabilities		–
Total assets less current liabilities		–
Net current assets		–
Share capital	7	–

The financial statements on pages 37 to 45 were approved and authorised for issue by the Board of Directors on 10 April 2012 and are signed on its behalf by:

Rui Fubin
DIRECTOR

Rui Yiping
DIRECTOR

Statement of Changes in Equity

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

	Note	Share capital RMB
Issued upon incorporation	7	–
At 31 December 2011		–

Statement of Cash Flows

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

	RMB
Cash flow from operating activity	–
Cash flow from investing activity	–
Cash flow from financing activity	–
Cash and cash equivalents at end of the period	–

Notes to the Financial Statements

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

1 General

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 4 January 2011. Its immediate and ultimate holding company is Power Heritage Group Limited ("Power Heritage"), a company which is incorporated in the British Virgin Islands.

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Pursuant to a group reorganisation, details of which are set out in the paragraph headed "Reorganisation" in Appendix V to the prospectus dated 10 April 2012 issued by the Company (the "Prospectus") (the "Group Reorganisation"), the Company has become the holding company of its subsidiaries (together with the Company hereinafter collectively referred to as the "Group") on 25 February 2012.

The Company acts as an investment holding company and its subsidiaries now comprising the Group are principally engaged in manufacture of and trading in wires and cables.

The financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

Notes to the Financial Statements

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

2 Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Company has applied all the standards, amendments, and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for the financial year beginning 1 January 2011.

The Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (Revised in 2011)	Employee benefits[2]
HKAS 27 (Revised in 2011)	Separate financial statements[2]
HKAS 28 (Revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

[1] *Effective for annual periods beginning on or after 1 July 2011.*

[2] *Effective for annual periods beginning on or after 1 January 2013.*

[3] *Effective for annual periods beginning on or after 1 January 2015.*

[4] *Effective for annual periods beginning on or after 1 January 2012.*

[5] *Effective for annual periods beginning on or after 1 July 2012.*

[6] *Effective for annual periods beginning on or after 1 January 2014.*

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Company.

3 Significant accounting policies

The financial statements have been prepared under the historical cost basis and in accordance with the accounting policies set out below which conform with the HKFRSs.

In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and by the Hong Kong Companies Ordinance.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial liabilities and equity

Financial liabilities and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Notes to the Financial Statements

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

4 Profit for the period

	RMB
Profit for the period has been arrived at after charging:	
Auditor's remuneration (note)	–
Directors' remuneration	–

Note: Auditor's remuneration of the Company was borne by other entities of the Group.

5 Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company had no assessable profit during the period.

6 Dividends

No dividend has been paid or declared by the Company since its incorporation.

7 Share capital

	Number of shares	Amounts in HK$
Ordinary shares at HK$0.01 each		
Authorised:		
On 4 January 2011 (date of incorporation) and 31 December 2011	100,000,000	100,000
Issued and nil paid:		
On 4 January 2011 (date of incorporation) and 31 December 2011	1	–
Shown in the financial statements at 31 December 2011 (RMB)		–

The Company was incorporated on 4 January 2011 with authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. Upon incorporation, one nil paid share (the "Nil-paid Share") was issued and allotted to Codan Trust Company (Cayman) Limited and the Nil-paid Share was then transferred to Power Heritage on 4 January 2011.

8 Capital risk management

The Company manages its capital to ensure the Company will be able to continue as a going concern while maximising the return to stakeholders. The Company's overall strategy remains unchanged since incorporation.

The directors of the Company review the capital structure on a periodic basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Company will balance its overall capital structure through new share issues.

Notes to the Financial Statements

For the period from 4 January 2011 (Date of Incorporation) to 31 December 2011

9 Events after the reporting period

The following events took place subsequent to 31 December 2011:

(a) On 25 February 2012, by resolution of the then sole shareholder of the Company, Power Heritage, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 9,990,000,000 shares of HK$0.01 each.

(b) On 25 February 2012, all the shareholders of Extra Fame Group Limited ("Extra Fame"), namely, Power Heritage, Furui Investments Limited ("Furui Investments") and Sinostar Holdings Limited ("Sinostar"), entered into a share transfer agreement with the Company, pursuant to which the shareholders of Extra Fame transferred the entire issued share capital of Extra Fame to the Company. On 25 February 2012, as the consideration of the acquisition, the Company issued and allotted 9,579,999, 231,000 and 189,000 new shares of the Company to Power Heritage, Furui Investments and Sinostar, respectively, and credited one nil paid share of the Company held by Power Heritage as fully paid. As a result, the Company was held as to 95.8% by Power Heritage, 2.31% by Furui Investments and 1.89% by Sinostar.

(c) On 25 February 2012, shareholders' written resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all Shareholders passed on 25 February 2012" in Appendix V to the Prospectus which includes, conditional upon the granting of the listing of the shares of the Company by the Listing Committee of the Stock Exchange and the conditions in the Underwriting Agreements being fulfilled, 1,190,000,000 shares are to be issued and allotted to the Shareholders by way of capitalisation of the sum of HK$11,900,000 (approximately RMB9,639,000) standing to the credit of the share premium account of the Company, such shares ranking pari passu in all respect with the existing issued shares of the Company.

Independent Auditor's Report on the Combined Financial Statements

Deloitte.
德勤

TO THE DIRECTORS OF JIANGNAN GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the combined financial statements of Jiangnan Group Limited (the "Company") and Extra Fame Group Limited and its subsidiaries, which have become the subsidiaries of the Company since 25 February 2012 (collectively referred to as the "Group") set out on pages 48 to 91, which have been prepared in accordance with the basis of preparation and significant accounting policies set out in notes 1 and 3, respectively, to the combined financial statements and comprise the combined statement of financial position as at 31 December 2011 and the combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Combined Financial Statements

The directors of the Company are responsible for the preparation of combined financial statements in accordance with the basis of preparation and significant accounting policies set out in notes 1 and 3, respectively, to the combined financial statements and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report on the Combined Financial Statements

Opinion

In our opinion, the combined financial statements for the year ended 31 December 2011 have been properly prepared in accordance with the basis of preparation and significant accounting policies set out in notes 1 and 3, respectively, to the combined financial statements and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

10 April 2012

Combined Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	7	**4,929,876**	3,686,366
Cost of goods sold		**(4,194,986)**	(3,155,232)
Gross profit		**734,890**	531,134
Other income	8	**14,434**	8,414
Selling and distribution costs		**(103,421)**	(92,936)
Administrative expenses		**(95,958)**	(70,125)
Other expenses		**(23,495)**	(7,427)
Other gains and losses		**(11,499)**	(17,042)
Finance costs	9	**(126,352)**	(68,869)
Profit before taxation		**388,599**	283,149
Taxation	10	**(71,154)**	(51,330)
Profit for the year attributable to owners of the Company	11	**317,445**	231,819
Other comprehensive income			
Exchange differences arising from translation of a foreign operation		**(11,167)**	3,288
Total comprehensive income for the year attributable to owners of the Company		**306,278**	235,107
Earnings per share – Basic	14	**26.5 cents**	20.1 cents

Combined Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**346,727**	344,985
Land use rights	16	**49,983**	51,212
Deposit paid for acquisition of property, plant and equipment		**15,283**	12,200
		411,993	408,397
Current assets			
Inventories	17	**1,185,879**	777,745
Trade and other receivables	18	**1,426,190**	1,082,504
Land use rights	16	**1,229**	1,229
Pledged bank deposits	19	**482,165**	177,322
Bank balances and cash	19	**677,897**	622,382
		3,773,360	2,661,182
Current liabilities			
Trade and other payables	20	**1,539,537**	936,630
Bills payables under financing arrangement	21	**–**	160,000
Amounts due to directors	22	**13,314**	73,499
Amount due to a director of a subsidiary	23	**–**	1,120
Short-term bank borrowings	24	**1,401,825**	913,600
Taxation payable		**23,161**	17,367
		2,977,837	2,102,216
Net current assets		**795,523**	558,966
Total assets less current liabilities		**1,207,516**	967,363
Non-current liabilities			
Government grants	25	**5,260**	–
Long-term bank borrowings	24	**–**	80,000
Deferred taxation	26	**20,245**	11,630
		25,505	91,630
		1,182,011	875,733
Capital and reserves			
Share capital	27	**85,665**	82,771
Reserves		**1,096,346**	792,962
		1,182,011	875,733

The combined financial statements on pages 48 to 91 were approved and authorised for issue by the Board of Directors on 10 April 2012 and are signed on its behalf by:

Rui Fubin	**Rui Yiping**
DIRECTOR	*DIRECTOR*

Combined Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital RMB'000	Share premium RMB'000 (Note a)	Capital reserve RMB'000 (Note a)	Non-distributable reserve RMB'000 (Note b)	Statutory reserve RMB'000 (Note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2010	82,771	–	–	77,351	41,051	(284)	373,731	574,620
Exchange differences arising from translation of a foreign operation	–	–	–	–	–	3,288	–	3,288
Profit for the year	–	–	–	–	–	–	231,819	231,819
Total comprehensive income for the year	–	–	–	–	–	3,288	231,819	235,107
Capital contribution	–	–	66,006	–	–	–	–	66,006
Transfers	–	–	–	–	22,803	–	(22,803)	–
At 31 December 2010	82,771	–	66,006	77,351	63,854	3,004	582,747	875,733
Exchange differences arising from translation of a foreign operation	–	–	–	–	–	(11,167)	–	(11,167)
Profit for the year	–	–	–	–	–	–	317,445	317,445
Total comprehensive income for the year	–	–	–	–	–	(11,167)	317,445	306,278
Issue of shares	2,894	63,112	(66,006)	–	–	–	–	–
Transfers	–	–	–	–	34,444	–	(34,444)	–
At 31 December 2011	85,665	63,112	–	77,351	98,298	(8,163)	865,748	1,182,011

Notes:

(a) Pursuant to an investment agreement ("Investment Agreement") dated 1 July 2010 entered into between Extra Fame Group Limited ("Extra Fame"), Furui Investments Limited ("Furui Investments") and Sinostar Holdings Limited ("Sinostar"), Furui Investments had agreed to subscribe for 2.31% of the issued share capital of Extra Fame at the total subscription price of US$5,500,000 (approximately RMB36,303,000) while Sinostar had agreed to subscribe for 1.89% of the issued share capital of Extra Fame at the total subscription price of US$4,500,000 (approximately RMB29,703,000). The subscription price was fully settled by Furui Investments and Sinostar in cash in November 2010. On 14 January 2011, 241,127 shares of US$1 each in the capital of Extra Fame (representing an approximately 2.31% of the enlarged issued share capital of Extra Fame) were issued to Furui Investments and 197,286 shares of US$1 each in the capital of Extra Fame (representing an approximately 1.89% of the enlarged issued share capital of Extra Fame) were issued to Sinostar pursuant to the Investment Agreement.

At 31 December 2010, consideration of US$10,000,000 (approximately RMB66,006,000) received by Extra Fame in November 2010 was classified as capital contribution from Furui Investments and Sinostar as the shares of Extra Fame were issued to them in January 2011.

(b) The non-distributable reserve represents capitalisation of retained profit of Wuxi Jiangnan Cable Co., Ltd. ("Jiangnan Cable") for capital re-investment Jiangnan Cable in 2007.

(c) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiary of the Group is required to maintain a statutory surplus fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiary while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Combined Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before taxation	**388,599**	283,149
Adjustments for:		
Interest income	**(13,147)**	(5,928)
Finance costs	**126,352**	68,869
Depreciation of property, plant and equipment	**30,799**	22,270
Loss on disposal of property, plant and equipment	**21**	694
Operating lease rentals in respect of land use rights	**1,229**	1,229
Allowance for bad and doubtful debts	**11,478**	16,348
Operating cash flows before movements in working capital	**545,331**	386,631
Increase in inventories	**(408,134)**	(187,027)
Increase in trade and other receivables	**(360,048)**	(417,667)
Increase in trade and other payables	**607,907**	540,183
Cash generated from operations	**385,056**	322,120
PRC income tax paid	**(54,097)**	(29,966)
Income tax paid in other jurisdiction	**(2,648)**	(126)
Net cash generated from operating activities	**328,311**	292,028
Investing activities		
Interest received	**6,841**	4,682
Proceeds from disposal of property, plant and equipment	**295**	2,010
Purchase of property, plant and equipment	**(20,535)**	(69,280)
Deposits paid for acquisition of property, plant and equipment	**(14,519)**	(12,200)
Government grants received	**5,260**	–
Advances to independent third parties and suppliers	**–**	(29,522)
Repayment of advances to independent third parties and suppliers	**2,509**	51,347
Release of pledged bank deposits	**768,518**	784,045
Bank deposits pledged	**(1,073,361)**	(524,097)
Net cash (used in) generated from investing activities	**(324,992)**	206,985

Combined Statement of Cash Flows

For the year ended 31 December 2011

	2011	2010
	RMB'000	RMB'000
Financing activities		
Interest paid	**(127,238)**	(75,385)
New bank borrowings raised	**1,625,425**	1,347,200
Repayment of bank borrowings	**(1,217,200)**	(1,272,200)
Advances from independent third parties	**–**	600
Repayments of advances from independent third parties	**(5,000)**	(75,000)
(Repayment to) advances from directors	**(60,185)**	9,897
Repayment to a director of a subsidiary	**(1,120)**	–
Bills payable under financing arrangement raised	**–**	357,000
Repayment of bills payable under financing arrangement	**(160,000)**	(670,380)
Capital contribution from Furui Investments and Sinostar	**–**	66,006
Net cash generated from (used in) financing activities	**54,682**	(312,262)
Net increase in cash and cash equivalents	**58,001**	186,751
Cash and cash equivalents at beginning of the year	**622,382**	433,651
Effect of foreign exchange rate changes	**(2,486)**	1,980
Cash and cash equivalents at end of the year, represented by bank balances and cash	**677,897**	622,382

Notes to the Combined Financial Statements

For the year ended 31 December 2011

1. General and basis of presentation of combined financial statements

The Company was incorporated and registered as an exempted company with limited liabilities in the Cayman Islands on 4 January 2011. The immediate and ultimate holding company of the Company is Power Heritage Group Limited ("Power Heritage"), a company which is incorporated in the British Virgin Islands. At the date of issue of these combined financial statements, Power Heritage was owned by Mr. Rui Fubin and Mr. Rui Yiping, the son of Mr. Rui Fubin.

The combined financial statements of the Company and Extra Fame and its subsidiaries (collectively referred to as the "Group") are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The principal activity of the Company is to act as an investment holding company. The subsidiaries of Extra Fame are engaged in the manufacture of and trading in wires and cables.

SA Asia Cable (Proprietary) Limited ("SA Asia Cable"), which is engaged in the business of trading of wires and cables business in South Africa, was held by Mr. Rui Yiping, Mr. Dong Bocheng and Mr. Chu Hui as nominee shareholders of Jiangnan Cable (the "Nominee Shareholders") since incorporation. Mr. Dong Bocheng and Mr. Chu Hui are directors of SA Asia Cable. On 16 July 2007, the Nominee Shareholders entered into an equity trust agreement with Jiangnan Cable, pursuant to which the Nominee Shareholders agreed and confirmed that the entire issued share capital of SA Asia Cable has always been held by them on trust and beneficially owned by Jiangnan Cable. Subsequently, on 25 August 2009, pursuant to an equity transfer agreement, the Nominee Shareholders transferred their entire equity interest in SA Asia Cable to Jiangnan Cable for no consideration. As a result, SA Asia Cable has been accounted for as a subsidiary of Jiangnan Cable for the years ended 31 December 2011 and 2010.

Jiangnan Cable was a wholly-owned subsidiary of Extra Fame on 1 January 2009. The ultimate controlling shareholders of the Group are Mr. Rui Fubin and Mr. Rui Yiping.

On 15 December 2010, Extra Fame incorporated a wholly owned subsidiary, Jiangnan Cable (HK) Limited ("Jiangnan Cable (HK)"). Pursuant to a sale and purchase agreement dated 20 December 2010, Jiangnan Cable (HK) acquired the entire equity interest in Jiangnan Cable from Extra Fame at a consideration of US$30,000,000 and satisfied by issuing and allotting 9 shares of HK$1 each to Extra Fame on 25 January 2011.

Pursuant to a share transfer agreement dated 25 February 2012, the Company acquired the entire equity interest in Extra Fame by issuing and allotting 9,999,999 shares of HK$0.01 each to the then shareholders of Extra Fame and crediting the one nil paid share of HK$0.01 held by Power Heritage as fully paid. Thereafter, the Company has become the holding company of Extra Fame since 25 February 2012.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

1. General and basis of presentation of combined financial statements *(continued)*

Details of the group reorganisation (the "Group Reorganisation") are set out in the paragraph headed "Reorganisation" in Appendix V to the prospectus dated 10 April 2012 issued by the Company (the "Prospectus").

Although the Group resulting from the above mentioned Group Reorganisation did not exist until 25 February 2012, the directors of the Company consider that meaningful information as regards to the historical performance of the Group, which includes entities under common control, is provided by treating the Group resulting from the Group Reorganisation as a continuing entity as if the group structure as at 25 February 2012 had been in existence from the beginning of the year ended 31 December 2010.

The Group resulting from the Group Reorganisation, which involves interspersing Jiangnan Cable (HK) and the Company as detailed above, is regarded as a continuing entity. Accordingly, the combined statements of comprehensive income and combined statements of cash flows for the years ended 31 December 2011 and 2010 include the results and cash flows of the companies now comprising the Group have been prepared, as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the years 2011 and 2010, or since their respective dates of incorporation where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2011 and 31 December 2010 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

The addresses of the registered office of the Company and the principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied all the standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants which are effective for the Group's financial year beginning 1 January 2011.

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (Revised in 2011)	Employee benefits[2]
HKAS 27 (Revised in 2011)	Separate financial statements[2]
HKAS 28 (Revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 *Effective for annual periods beginning on or after 1 July 2011.*

2 *Effective for annual periods beginning on or after 1 January 2013.*

3 *Effective for annual periods beginning on or after 1 January 2015.*

4 *Effective for annual periods beginning on or after 1 January 2012.*

5 *Effective for annual periods beginning on or after 1 July 2012.*

6 *Effective for annual periods beginning on or after 1 January 2014.*

Notes to the Combined Financial Statements

For the year ended 31 December 2011

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the Group's consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. Significant accounting policies

The combined financial statements have been prepared under the historical cost basis and in accordance with the accounting policies set out below which conform with the HKFRSs.

In addition, the combined financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Companies Ordinance.

Basis of combination

The combined financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for good sold in the normal course of business, net of discounts, value added tax and sales related taxes.

Revenue from the sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the combined statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the asset are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Land use rights and leasehold building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the combined statement of financial position and is amortised over the lease term on a straight line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sales are capitalised as part of the cost of those assets. Capitalisation of such borrowings costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. Significant accounting policies *(continued)*

Research and development costs *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimate future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entity are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to directors and amount due to a director of a subsidiary, bills payables under financing arrangement and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

3. Significant accounting policies *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income or expense items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined financial statement of the Group and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

3. Significant accounting policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the year in which they arise.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Group's operations are translated from the functional currency of the respective companies into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of. For disposal of a group entity that is not a foreign operation, the exchange differences are released to accumulated profits.

Operating leases

Rentals payable under operating lease are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the combined statement of financial position and released to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to state-managed retirement benefits schemes/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

4. Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and accumulated profits as disclosed in the combined financial statements.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debt.

5. Key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation and impairment of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group. The Group tests whether property, plant and equipment have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of property, plant and equipment have been determined based on discounted cash flow method. The directors of the Company consider that the recoverable amount exceeded the carrying amount of the property, plant and equipment and therefore, no impairment was recognised during the year. At 31 December 2011, the carrying amounts of property, plant and equipment are approximately RMB346,727,000 (2010: RMB344,985,000).

Notes to the Combined Financial Statements

For the year ended 31 December 2011

5. Key sources of estimation uncertainty *(continued)*

Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. The management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the combined financial statements for any obsolete and slow moving items. Although the Group carried periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sale was concluded.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2011, the carrying amounts of trade receivables are approximately RMB1,313,371,000 (2010: RMB1,003,058,000) (net of allowance for doubtful debts of RMB66,611,000 (2010: RMB55,133,000) as at 31 December 2011).

6. Financial instruments

Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,574,031**	1,867,054
Financial liabilities		
Amortised cost	**2,670,195**	1,925,867

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bills payables under financing arrangement, amounts due to directors, amount due to a director of a subsidiary and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. Financial instruments *(continued)*

Financial risk management objectives and policies *(continued)*

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the interest bearing pledged bank deposits, bank balances and bank borrowings at variable interest rate. Bank borrowings at fixed interest rates exposed the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates offered by the People's Bank of China ("PBOC") from its RMB denominated pledged bank deposits, bank balances and borrowings and the fluctuation of the interest rates offered by the South African Reserve Bank's Monetary Policy Committee (MPC) from its Rand denominated bank balances.

The sensitivity analysis below has been determined based on the exposure of interest rates for interest bearing pledged bank deposits, bank balances and variable rate bank borrowings at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If the interest rates on pledged bank deposits, bank balances and bank borrowings had been 25 basis points (2010: 25 basis points) lower and all other variables were held constant, the potential effect on profit for the year is as follows:

	2011	2010
	RMB'000	RMB'000
Decrease in profit for the year	**1,007**	1,326

There would be an equal and opposite impact on the profit for the year where there had been 25 basis points higher.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

Currency risk

The Group has foreign currency sales and purchases during the year which exposed the Group to foreign currency risk. During the year ended 31 December 2011, approximately 8% (2010: 3%) of the Group's sales are denominated in currency other than the functional currency of the group entity which it relates.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2011		2010	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
United States Dollars	**198,471**	**(90,078)**	35,325	(1,906)
Hong Kong Dollars	**3,423**	**(10,117)**	3,387	–
Singapore Dollars	**23,759**	**–**	–	–
Euro	**–**	**–**	–	(1,848)

The Group is mainly exposed to currency risk of United States Dollars, Hong Kong Dollars, Singapore Dollars and Euro. The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in the RMB against the relevant foreign currencies. The Group currently does not have any foreign currency hedging policy and will consider hedging its foreign currency exposure should the need arise. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currency rates. The sensitivity analysis includes bank balances, trade and other receivables, trade and other payables and amounts due to directors. If the RMB strengthens 5% (2010: 5%) against the relevant foreign currencies, the increase (decrease) in profit for the year is as follows:

	2011 RMB'000	2010 RMB'000
United States Dollars	**(5,420)**	(1,671)
Hong Kong Dollars	**335**	(169)
Singapore Dollars	**(1,188)**	–
Euro	**–**	92

There would be an equal and opposite impact on the profit for the year if RMB weakens 5% against the relevant currencies.

6. Financial instruments *(continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statement of financial position. In order to minimise the credit risk, the management has standard operating procedures and guidelines to determine credit limits before contracts are signed and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in relation to trade and bills receivables from top five customers amounting to RMB166,400,000 (2010: RMB55,759,000), representing approximately 12% (2010: 5%) of the total trade and bills receivables at 31 December 2011. The largest trade and bills receivable from a customer by itself accounted for approximately 7% (2010: 3%) of the total trade and bills receivables at 31 December 2011. The details of trade and bills receivables which are past due but not impaired at the end of the reporting period are disclosed in note 18. The Group also has concentration of credit risk in relation to advances to independent third parties. The concentration of credit risk from advances to top five independent third parties amounted to RMB2,509,000, representing approximately 100% of the total advances to independent third parties at 31 December 2010. The largest advance to an independent third party by itself accounted for approximately 99% of the total advances to independent third parties at 31 December 2010. In order to minimise the credit risk, the management has reviewed the recoverable amounts of trade and bills receivables and advances to independent third parties regularly to ensure that follow-up action is taken timely and assigned a dedicated team to monitor the credit risk that takes into consideration the ageing status and estimate the likelihood of collection. In this regard, the directors of the Company consider that the Group's credit risk on trade and bills receivables and advances to independent third parties is significantly reduced.

The Group's credit risk on bank balances and deposits or bills receivables is limited and there is no significant concentration of credit risk because all bank deposits or bills are deposited in or contracted with several state-owned banks with good reputation and with high credit ratings assigned by international credit-rating agencies.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

6. Financial instruments *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures the compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on agreed payment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand or less than 6 months	6 months to 1 year	Over 1 year but not more than 2 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011						
Trade and other payables	**–**	**1,255,056**	**–**	**–**	**1,255,056**	**1,255,056**
Amounts due to directors	**–**	**13,314**	**–**	**–**	**13,314**	**13,314**
Bank borrowings:						
– variable rate	**6.76**	**389,478**	**388,678**	**–**	**778,156**	**752,825**
– fixed rate	**6.33**	**473,438**	**193,372**	**–**	**666,810**	**649,000**
		2,131,286	**582,050**	**–**	**2,713,336**	**2,670,195**
At 31 December 2010						
Trade and other payables	–	697,648	–	–	697,648	697,648
Bills payables under financing arrangement	–	160,000	–	–	160,000	160,000
Amounts due to directors	–	73,499	–	–	73,499	73,499
Amount due to a director of a subsidiary	–	1,120	–	–	1,120	1,120
Bank borrowings:						
– variable rate	5.21	86,258	176,224	–	262,482	253,600
– fixed rate	5.28	464,621	237,903	88,415	790,939	740,000
		1,483,146	414,127	88,415	1,985,688	1,925,867

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values at the end of the reporting period.

7. Turnover and segment information

The Group's chief operating decision maker has been identified as the board of directors of the Company who reviews the business of the following reportable operating segments by products:

- Power cables
- Wires and cables for electrical equipment
- Bare wires

The above segments have been identified on the basis of internal management reports prepared and regularly reviewed by the board of directors of the Company when making decisions about allocating resources and assessing performance of the Group.

Turnover represents the fair value of the consideration received and receivable for goods sold during the year.

The segment results represent the gross profits earned by each segment (segment revenue less segment cost of goods sold), which represents the internally generated financial information regularly reviewed by the board of directors. However, other gains and losses, other income and expenses, selling and distribution costs, administrative expenses, finance costs and taxation are not allocated to each reportable segment. This is the measure reported to the board of directors for the purposes of resource allocation and assessment of segment performance.

The information of segment results are as follows:

	2011 **RMB'000**	2010 RMB'000
Revenue		
– power cables	**3,264,747**	2,462,922
– wires and cables for electrical equipment	**1,101,426**	943,894
– bare wires	**563,703**	279,550
	4,929,876	3,686,366
Cost of goods sold		
– power cables	**2,746,478**	2,089,747
– wires and cables for electrical equipment	**937,463**	806,092
– bare wires	**511,045**	259,393
	4,194,986	3,155,232
Segment result		
– power cables	**518,269**	373,175
– wires and cables for electrical equipment	**163,963**	137,802
– bare wires	**52,658**	20,157
	734,890	531,134

Notes to the Combined Financial Statements

For the year ended 31 December 2011

7. Turnover and segment information *(continued)*

The reportable segment results are reconciled to profit before taxation of the Group as follows:

	2011 **RMB'000**	2010 RMB'000
Reportable segment results	**734,890**	531,134
Unallocated income and expenses		
– Other income	**14,434**	8,414
– Selling and distribution costs	**(103,421)**	(92,936)
– Administrative expenses	**(95,958)**	(70,125)
– Other expenses	**(23,495)**	(7,427)
– Other gains and losses	**(11,499)**	(17,042)
– Finance costs	**(126,352)**	(68,869)
Profit before taxation	**388,599**	283,149

As no discrete information in respect of segment assets, segment liabilities and other information is used for the assessment of performance and allocation of resources of different reportable segments. Thus, other than reportable segment revenue and segment results as disclosed above, no analysis of segment assets and segment liabilities is presented.

Other information

Turnover by geographical location of customers is presented as follows:

	2011 **RMB'000**	2010 RMB'000
Turnover		
– PRC (country of domicile)	**4,498,535**	3,585,049
– South Africa	**375,362**	96,449
– Singapore	**23,759**	–
– United States	**20,472**	–
– South America	**8,636**	3,473
– Australia	**2,843**	511
– Philippines	**239**	–
– Middle East	**30**	–
– Hong Kong	**–**	884
	4,929,876	3,686,366

The Group mainly operates in two principal geographical areas – the PRC (excluding Hong Kong) and South Africa. At 31 December 2011, approximately 99.8% (2010: 99.9%) of the Group's non-current assets were located in the PRC (the place of domicile).

Information about major customers

No customer contributing over 10% of the total sales of the Group during both years.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

8. Other income

	2011 RMB'000	2010 RMB'000
Interest income	**13,147**	5,928
Government subsidiaries (Note)	**1,197**	2,486
Others	**90**	–
	14,434	8,414

Note: The amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage business development in the Yixing region and research and energy reduction activities conducted by the Group. There are no specific conditions attached to each of these grants, therefore the Group recognised the grants upon receipts during both years.

9. Finance costs

	2011 RMB'000	2010 RMB'000
Interests on bank loans wholly repayable within five years	**127,238**	70,586
Less: Amount capitalised	**(886)**	(6,516)
	126,352	64,070
Interest on bills financing arrangement (Note 21)	**–**	4,799
	126,352	68,869

Borrowing costs capitalised during the year ended 31 December 2011, arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.5% (2010: 5.2%) per annum, respectively, for the Group's expenditure on qualifying assets.

10. Taxation

	2011 RMB'000	2010 RMB'000
The charge comprises:		
PRC income Tax	**61,955**	44,465
South Africa corporate tax	**584**	1,168
Deferred taxation (Note 26)	**8,615**	5,697
Taxation charge for the year	**71,154**	51,330

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onward. Taxation arising in South Africa is calculated at the rate prevailing in South Africa. South Africa corporate tax is calculated at 28% (2010: 28%) of the assessable profit during the year.

Pursuant to the approval documents issued by the Yixing Provincial Commission of Science and Technology on 4 March 2009, Jiangnan Cable was endorsed as a High and New Technology Enterprise and was entitled to a reduced PRC income tax rate of 15% for the year commencing 2009.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

10. Taxation *(continued)*

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Details Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China-HK TA), a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. Deferred tax liability on the undistributed profits of Jiangnan Cable earned during the year ended 31 December 2011 have been accrued at the tax rate of 10% (2010: 10%) on the expected dividend stream of 25% on the undistributed profit of Jiangnan Cable which is determined by the directors of the Company.

No provision for Hong Kong Profits Tax has been provided in the combined financial statements as the Group did not have assessable profit in Hong Kong during both years.

The taxation for the year is reconciled to profit before taxation per the combined statement of comprehensive income as follows:

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**388,599**	283,149
Tax at the applicable tax rate (Note)	**97,150**	70,787
Tax effect of expenses not deductible for tax purposes	**5,185**	3,609
Tax effect of income not taxable for tax purposes	**(450)**	(18)
Tax effect of tax concession granted to Jiangnan Cable	**(40,502)**	(27,241)
Effect of different applicable tax rate of a subsidiary	**63**	125
Withholding tax on undistributed earnings	**8,615**	5,697
Others	**1,093**	(1,629)
Taxation charge for the year	**71,154**	51,330

Note: The applicable income tax rate represents PRC income tax rate at 25% (2010: 25%) for the year ended 31 December 2011 as the Group's operations are substantially based in the PRC.

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For the year ended 31 December 2011

11. Profit for the year

	2011	2010
	RMB'000	RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (Note 12)	**1,697**	888
Other staff cost:		
Salaries and other benefits	**98,331**	72,293
Contributions to retirement benefit scheme	**12,182**	7,531
Total staff costs	**112,210**	80,712
Less: Staff costs included in research and development costs	**(8,330)**	(6,104)
	103,880	74,608
Depreciation of property, plant and equipment	**30,799**	22,270
Less: Depreciation included in research and development costs	**(1,603)**	(1,323)
	29,196	20,947
Allowance for bad and doubtful debts (included in other gains and losses)	**11,478**	16,348
Auditor's remuneration	**80**	80
Cost of inventories recognised as expenses	**4,194,986**	3,155,232
Loss on disposal of property, plant and equipment (included in other gains and losses)	**21**	694
Research and development costs (included in other expenses)	**9,933**	7,427
Expenses in relation to initial public offering of the Company's shares (included in other expenses)	**13,562**	–
Minimum lease payment under operating lease in respect of property	**545**	491
Operating lease rentals in respect of land use rights	**1,229**	1,229

12. Directors' emoluments

Details of the emoluments paid to the directors of the Company during the year are as follows:

	2011	2010
	RMB'000	RMB'000
Directors' fees	**–**	–
Other emoluments to non-executive directors and independent non-executive directors	**–**	–
Other emoluments to executive directors		
– basic salaries and allowances	**1,673**	876
– bonus	**–**	–
– retirement benefits scheme contributions	**24**	12
	1,697	888

Notes to the Combined Financial Statements

For the year ended 31 December 2011

12. Directors' emoluments *(continued)*

Details of emoluments paid by the Group to the directors of the Company are as follows:

	2011 **RMB'000**	2010 RMB'000
Mr. Rui Fubin		
– director's fee	**–**	–
– basic salaries and allowances	**539**	240
– bonus	**–**	–
– retirement benefits scheme contributions	**–**	–
	539	240
Mr. Rui Yiping		
– director's fee	**–**	–
– basic salaries and allowances	**489**	240
– bonus	**–**	–
– retirement benefits scheme contributions	**8**	4
	497	244
Mr. Jiang Yongwei		
– director's fee	**–**	–
– basic salaries and allowances	**280**	180
– bonus	**–**	–
– retirement benefits scheme contributions	**8**	4
	288	184
Ms. Xia Yafang		
– director's fee	**–**	–
– basic salaries and allowances	**365**	216
– bonus	**–**	–
– retirement benefits scheme contributions	**8**	4
	373	220
Mr. He Zhisong*		
– director's fee	**–**	–
– basic salaries and allowances	**–**	–
– retirement benefits scheme contributions	**–**	–
	–	–
Mr. Wu Changshun*		
– director's fee	**–**	–
– basic salaries and allowances	**–**	–
– retirement benefits scheme contributions	**–**	–
	–	–

12. Directors' emoluments *(continued)*

	2011 **RMB'000**	2010 RMB'000
Mr. Yang Rongkai*		
– director's fee	**–**	–
– basic salaries and allowances	**–**	–
– retirement benefits scheme contributions	**–**	–
	–	–
Mr. Poon Yick Pang Philip*		
– director's fee	**–**	–
– basic salaries and allowances	**–**	–
– retirement benefits scheme contributions	**–**	–
	–	–
Total	**1,697**	888

** being independent non-executive directors of the Company.*

The five highest paid individuals for the year ended 31 December 2011 included three (2010: four) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2010: one) individuals, for the year were as follows:

	2011 **RMB'000**	2010 RMB'000
Employees		
– basic salaries and allowances	**1,006**	180
– bonus	**–**	–
– retirement benefits scheme contributions	**10**	2
	1,016	182

The emoluments of each of the five highest paid individuals (including the directors) during both years were within HK$1,000,000.

During both years, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the director has waived any emoluments during both years.

13. Dividends

No dividend has been paid or declared by the Company since its incorporation. No dividend was distributed to the then shareholders of Extra Fame during the years ended 31 December 2011 and 2010 and prior to the Group Reorganisation.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

14. Earnings per share

The calculation of the basic earnings per share for the year is based on the following data:

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**317,445**	231,819
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,200,000,000**	1,154,985,241

The weighted average number of ordinary shares for the purpose of basic earnings per share is determined based on the assumption that the Group Reorganisation and the capitalisation issue as disclosed in "Statutory and General Information" in Appendix V to the Prospectus, as if, have been completed on 1 January 2010, and with taking into consideration of the subscription money received from Furui Investments and Sinostar pursuant to the Investment Agreement (see note 27) on 23 November 2010.

No dilutive earnings per share are presented as there were no potential dilutive shares during both years.

15. Property, plant and equipment

	Buildings RMB'000	**Plant and machinery** RMB'000	**Motor vehicles** RMB'000	**Furniture, fixtures and equipment** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
COST						
At 1 January 2010	125,641	144,333	15,349	11,076	26,689	323,088
Additions	–	25,523	7,165	2,157	94,774	129,619
Disposals	(1,019)	–	(3,423)	–	–	(4,442)
Transfer	–	–	315	–	(315)	–
At 31 December 2010	124,622	169,856	19,406	13,233	121,148	448,265
Additions	–	13,704	909	3,820	14,424	32,857
Disposals	–	(708)	(175)	(355)	–	(1,238)
Transfer	39,743	77,115	–	2,187	(119,045)	–
At 31 December 2011	164,365	259,967	20,140	18,885	16,527	479,884
DEPRECIATION						
At 1 January 2010	23,051	45,013	8,108	6,576	–	82,748
Provided for the year	5,615	13,459	1,946	1,250	–	22,270
Eliminated on disposal	(268)	–	(1,470)	–	–	(1,738)
At 31 December 2010	28,398	58,472	8,584	7,826	–	103,280
Provided for the year	6,454	19,799	2,672	1,874	–	30,799
Eliminated on disposal	–	(456)	(157)	(309)	–	(922)
At 31 December 2011	34,852	77,815	11,099	9,391	–	133,157
CARRYING VALUES						
At 31 December 2011	129,513	182,152	9,041	9,494	16,527	346,727
At 31 December 2010	96,224	111,384	10,822	5,407	121,148	344,985

Notes to the Combined Financial Statements

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15. Property, plant and equipment *(continued)*

The Group's buildings are erected on land held under medium-term land used rights in the PRC.

At 31 December 2011, the Group pledged certain of its buildings with an aggregate carrying value of RMB59,020,000 (2010: RMB63,043,000) to certain banks to secure credit facilities granted to the Group.

At 31 December 2011, the Group pledged certain of its machinery with an aggregate carrying value of RMB59,680,000 (2010: RMB73,262,000) to certain banks to secure credit facilities granted to the Group.

During the year ended 31 December 2011, interest expense of RMB886,000 (2010: RMB6,516,000) have been capitalised.

The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using straight line method, at the following rates per annum:

Buildings	4.8%
Plant and machinery	9%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

16. Land use rights

	2011 **RMB'000**	2010 RMB'000
Carrying amount		
At beginning of the year	**52,441**	53,670
Charged to profit or loss for the year	**(1,229)**	(1,229)
At end of the year	**51,212**	52,441
Analysed for reporting purposes as:		
Current portion	**1,229**	1,229
Non-current portion	**49,983**	51,212
	51,212	52,441

The amounts represent payments of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

At 31 December 2011 and 31 December 2010, the Group has pledged all the land use rights to certain banks to secure the credit facilities granted to the Group.

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For the year ended 31 December 2011

17. Inventories

	2011 RMB'000	2010 RMB'000
Raw materials	**15,046**	63,898
Work in progress	**713,040**	372,952
Finished goods	**457,793**	340,895
	1,185,879	777,745

At 31 December 2011, the Group pledged certain of its inventories with an aggregate carrying value of RMB165,900,000 (2010: RMB75,900,000) to certain banks to secure credit facilities granted to the Group.

18. Trade and other receivables

	2011 RMB'000	2010 RMB'000
Trade receivables, net	**1,313,371**	1,003,058
Bills receivables	**57,818**	45,437
	1,371,189	1,048,495
Deposits paid to suppliers	**1,902**	6,279
Advances to independent third parties	**–**	2,509
Staff advances	**5,384**	3,468
Prepayments	**5,117**	5,407
Tender deposits	**38,534**	14,532
Other receivables	**4,064**	1,814
	1,426,190	1,082,504

The Group normally allows a credit period ranging from 30 to 180 days to its trade customers.

The following is an aged analysis of trade receivables, net of allowances for bad and doubtful debts, and bill receivables based on the invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Age		
0 to 90 days	**1,023,289**	785,399
91 to 180 days	**322,064**	227,273
181 to 365 days	**25,836**	35,823
	1,371,189	1,048,495

18. Trade and other receivables *(continued)*

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB482,560,000 (2010: RMB391,045,000) at 31 December 2011, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade and bills receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances. At 31 December 2011, the Group pledged certain of its bills receivables with an aggregate carrying value of RMB53,938,000 to certain banks to secure credit facilities granted to the Group. None of the Group's bills receivables were pledged at 31 December 2010.

The following is an aging analysis of trade and bills receivables which are past due but not impaired at the end of the reporting period:

	2011 **RMB'000**	2010 RMB'000
Age		
0 to 90 days	**174,588**	190,325
91 to 180 days	**291,565**	171,392
181 to 365 days	**16,407**	29,328
	482,560	391,045

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period. The directors of the Company considered that the concentration of credit risk is limited due to customer base being large and unrelated.

The Group has provided fully for all receivables over three years because historical experience is such that receivables that are past due beyond three years are generally not recoverable.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from sale of goods by reference to past default experience and objective evidence of impairment determined by the difference between the carrying amount and the present value of the estimated future cash flow discounted at the original effective interest rate.

Movement in the allowance for bad and doubtful debts:

	2011 **RMB'000**	2010 RMB'000
At beginning of the year	**55,133**	38,785
Allowances for the year	**11,478**	16,348
At end of the year	**66,611**	55,133

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB66,611,000 (2010: RMB55,133,000) at 31 December 2011, which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

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18. Trade and other receivables *(continued)*

Deposits paid to suppliers represent the deposits paid for purchase of raw materials. The Group is required to pay trade deposits to certain suppliers for purchase of raw materials for the purpose of securing regular supply of raw materials and the amounts of trade deposits required vary on case by case basis.

During the year ended 31 December 2010, the Group made advances to independent third parties not related to the Group. These advances are unsecured, non-interest bearing and are repayable within one year. These advances have been fully settled in March 2011.

Prepayments mainly comprise prepayments for electricity, advertising, utility deposits and other operating expenses. Tender deposits represent deposits paid for bidding of projects for supply of power cables by the Group and are refundable upon completion of the bidding process. Other receivables mainly represent interest receivables from bank deposits.

Included in trade and other receivables are the following amounts denominated in currencies other than functional currency of the group entities that it relates:

	2011	2010
	RMB'000	RMB'000
United states dollars	**193,280**	27,872
Singapore dollars	**23,759**	–

19. Bank balances and cash/pledged bank deposits

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at prevailing market rate ranging from 0.36% to 0.50% per annum (2010: 0.36% per annum) at 31 December 2011.

The pledged bank deposits carry interest at the prevailing market rate ranging from 2.50% to 3.30% per annum (2010: 1.98% to 2.50% per annum) at 31 December 2011.

At 31 December 2011 and 31 December 2010, the entire pledged bank deposits represents deposits pledged to banks to secure the short-term bank facilities drawn and the issuance of bills payables by the Group.

Included in bank balance and cash and pledged bank deposit are the following amounts denominated in currencies other than functional currency of the group entity which it relates:

	2011	2010
	RMB'000	RMB'000
United States dollars	**5,191**	7,453
Hong Kong dollars	**3,423**	3,387

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20. Trade and other payables

	2011 RMB'000	2010 RMB'000
Trade payables	**412,122**	293,267
Bills payables	**835,000**	396,250
	1,247,122	689,517
Payroll and welfare accruals	**36,203**	32,273
Receipts in advances from customers	**198,394**	163,665
Advances from independent third parties	**–**	5,000
Other tax payables	**10,622**	12,421
Other deposits	**3,360**	1,267
Other payables and accruals	**43,836**	32,487
	1,539,537	936,630

The Group normally receives credit terms of 30 days from its suppliers. The following is an aged analysis of trade and bills payables based on invoice date at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Age		
0 to 90 days	**1,087,471**	479,428
91 to 180 days	**157,466**	206,752
181 to 365 days	**410**	1,510
Over 1 year	**1,775**	1,827
	1,247,122	689,517

During the year ended 31 December 2010, the Group received advances from independent third parties not related to the Group. At 31 December 2010, these advances were unsecured, non-interesting bearing and are repayable within one year. These advances have been fully settled in January 2011.

Included in trade and other payables are the following amounts denominated in currencies other than functional currency of the group entities that it relates:

	2011 RMB'000	2010 RMB'000
United States dollars	**90,078**	1,906
Euro	**–**	1,848

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21. Bills payables under financing arrangement

	2011 **RMB'000**	2010 RMB'000
Bank bills	–	120,000
Commercial bills	–	40,000
	–	160,000

(a) Bank bills

During the year ended 31 December 2010, Jiangnan Cable and certain of its suppliers, being independent parties not related to the Group (the "Suppliers"), entered into financing arrangements with certain PRC commercial banks. Under these arrangements, Jiangnan Cable instructed the relevant banks to issue bank bills to the Suppliers at certain face amounts with pledged bank deposits ranged from 29% to 100% of the face amount of bank bills. These bank bills were used by the Suppliers to present to other PRC commercial banks for discounting and then remitted the proceeds from bills discounting back to Jiangnan Cable. During the year ended 31 December 2010, bank bills of total amount in aggregate of RMB277,000,000, were issued to the Suppliers under these financing arrangements. At 31 December 2010, there were bank deposits of RMB30,000,000 that were pledged to these PRC commercial banks for these financing arrangements.

At 31 December 2010, the above bank bills issued while remained outstanding carry interest ranging from 4.08% per annum. The related interest expenses of RMB3,815,000 was incurred and recognised as finance costs by Jiangnan Cable during the year ended 31 December 2010. As the Group ceased to enter such bills financing activities since November 2010, no related finance cost were incurred during the period from 1 November 2010 to 31 December 2011.

Jiangnan Cable has ceased the above financing arrangement effective from February 2011 when all the related bank bills were settled.

(b) Commercial bills

Also, during the year end 31 December 2010, Jiangnan Cable and the Suppliers have entered similar financing arrangement to (a) above with commercial bills issued by Jiangnan Cable. Under these financing arrangements, Jiangnan Cable issued commercial bills guaranteed by Jiangnan Cable to the Suppliers at certain face amounts (without the requirement of placing any pledge bank deposits). These commercial bills were used by the Suppliers to present to the PRC commercial banks for discounting and then remitted the proceeds from bills discounting back to Jiangnan Cable. During the year ended 31 December 2010, commercial bills of total amount in aggregate of RMB80,000,000 were issued by Jiangnan Cable to the Suppliers under this financing arrangement.

At 31 December 2010, the above commercial bills while remained outstanding carry interest at 4.96% per annum. The related interest expenses of RMB984,000 was incurred and recognised as finance costs by Jiangnan Cable during the year ended 31 December 2010. As the Group ceased to enter such bills financing activities since November 2010, no related finance cost were incurred during the period from 1 November 2010 to 31 December 2011.

Jiangnan Cable has ceased the above financing arrangement effective from April 2011 when all the related commercial bills were settled.

22. Amounts due to directors

	2011 RMB'000	2010 RMB'000
Directors of the Company		
– Mr. Rui Fubin	**12,866**	54,337
– Mr. Rui Yiping	**205**	19,162
– Mr. Jiang Yongwei	**97**	–
– Ms. Xia Yafang	**146**	–
	13,314	73,499

The amounts represented advance from directors of the Company for the daily operation of the Group. The amounts were unsecured, non-interest bearing and repayable on demand.

Included in amounts due to directors are the following amounts denominated in currencies other than the functional currency of the group entity that it relates:

	2011 RMB'000	2010 RMB'000
Hong Kong dollars	**10,117**	–

23. Amount due to a director of a subsidiary

The amount represented amount due to a director of SA Asia Cable, Mr. Dong Bocheng, which was unsecured, non-interest bearing and has no fixed repayment term. The amount was advanced for the daily operation of SA Asia Cable and was fully repaid in January 2011.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

24. Bank borrowings

	2011 **RMB'000**	2010 RMB'000
Secured	**199,725**	–
Secured and guaranteed by:		
– independent third parties	**409,500**	–
– directors, family members of directors and related companies	**–**	94,600
– directors, family members of directors and independent third parties	**–**	125,400
Unsecured and guaranteed by:		
– independent third parties	**742,600**	170,000
– directors, family members of directors, related companies and independent third parties	**50,000**	603,600
	1,401,825	993,660

	2011 **RMB'000**	2010 RMB'000
The bank borrowings are repayable as follows:		
Within one year	**1,401,825**	913,600
More than one year, but not exceeding two years	**–**	80,000
	1,401,825	993,600
Less: Amount due within one year shown under current liabilities	**(1,401,825)**	(913,600)
	–	80,000

	2011 **RMB'000**	2010 RMB'000
The bank borrowings comprise:		
Variable rate borrowings	**752,825**	253,600
Fixed rate borrowings	**649,000**	740,000
	1,401,825	993,600

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24. Bank borrowings *(continued)*

At 31 December 2011, the fixed rate bank borrowings carried interest ranging from 2.50% to 7.57% per annum (2010: 4.78% to 5.58% per annum).

At 31 December 2010, the variable rate bank borrowings carried interest ranging from PBOC rate to 110% of PBOC rate per annum. At 31 December 2011, the variable rate bank borrowings carried interest ranging from PBOC rate to 120% of PBOC rate per annum.

All bank borrowings are denominated in Renminbi at 31 December 2011 and 31 December 2010.

Certain bank borrowings and bills payables by the Group are secured by certain of the Group's assets. The carrying values of these assets at the end of the reporting period were as follows:

	2011 **RMB'000**	2010 RMB'000
For bank borrowings:		
– property, plant and equipment	**118,700**	136,305
– land use rights	**51,212**	52,441
– inventories	**165,900**	75,900
– bills receivables	**53,938**	–
For bank borrowings and bills payables:		
– Pledged bank deposits	**482,165**	177,322
	871,915	441,968

25. Government grants

	2011 **RMB'000**	2010 RMB'000
At beginning of the year	**–**	–
Addition during the year	**5,260**	–
At end of the year	**5,260**	–

In December 2011, the Group received government subsidies of RMB5,260,000 in relation to capital expenditure on property, plant and equipment made by the Group in 2010. The relevant conditions of the subsidies has been fulfilled before recognition and such subsidies were non-recurring in nature. The amount has been treated as deferred income and will transfer to income over the useful lives of the relevant assets.

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26. Deferred taxation

The following is the deferred tax liability recognised by the Group and movements thereon during the year:

	Tax on undistributed earnings
	RMB'000
At 1 January 2010	5,933
Charged to profit or loss for the year	5,697
At 31 December 2010	11,630
Charged to profit or loss for the year	8,615
At 31 December 2011	20,245

Under the New EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred tax liability on the undistributed profits earned during the years ended 31 December 2011 and 2010 have been accrued at the tax rate of 10% on the expected dividend stream of 25% on the undistributed profit of Jiangnan Cable which is determined by the directors of the Company.

27. Share capital and capital reserve

The Company was incorporated and registered as an exempted company in the Cayman Islands on 4 January 2011 with an authorised share capital of HK$100,000 dividend into 10,000,000 ordinary shares of HK$0.01 each. Upon incorporation of the Company, one share of HK$0.01 each was issued at nil paid.

The share capital at 31 December 2010 represented the then issued and fully paid share capital of Extra Fame.

The share capital at 31 December 2011 represented the then issued and fully paid share capital of the Company and Extra Fame.

Pursuant to the Investment Agreement dated 1 July 2010 entered into between Extra Fame and two independent third parties – Furui Investments and Sinostar, Furui Investments had agreed to subscribe for 2.31% of the issued share capital of Extra Fame at the total subscription price of US$5,500,000 (approximately RMB36,303,000) while Sinostar had agreed to subscribe for 1.89% of the issued share capital of Extra Fame at the total subscription price of US$4,500,000 (approximately RMB29,703,000). The subscription price was fully settled by Furui Investments and Sinostar in cash in November 2010. On 14 January 2011, 241,127 shares of US$1 each in the capital of Extra Fame (representing an approximately 2.31% of the enlarged issued share capital of Extra Fame) were issued to Furui Investments and 197,286 shares of US$1 each in the capital of Extra Fame (representing an approximately 1.89% of the enlarged issued share capital of Extra Fame) were issued to Sinostar pursuant to the Investment Agreement.

At 31 December 2010, consideration of US$10,000,000 (approximately RMB66,006,000) received by Extra Fame in November 2010 was classified as capital contribution from Furui Investments and Sinostar as the shares of Extra Fame were issued to them in January 2011.

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28. Operating lease commitments

At the end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating leases in respect of rented office premises which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**443**	247
In the second to fifth year inclusive	**584**	–
	1,027	247

The lease is negotiated for lease term of 1 to 2 years at fixed monthly rental.

29. Capital commitment

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the combined financial statements in respect of acquisition of property, plant and equipment	**7,983**	9,178

30. Retirement benefits schemes

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,000 per month for each employee.

31. Related party transactions

Other than the transactions and balances with related parties disclosed in notes 22, 23 and 24 during the year, the Group has no other significant transactions and balances with related parties.

The details of remuneration of key management personnel, represents the emoluments of directors of the Company paid during the year are set out in note 12.

Notes to the Combined Financial Statements

For the year ended 31 December 2011

32. Events after the reporting period

The following events took place subsequent to 31 December 2011:

(a) On 25 February 2012, by resolution of the then sole shareholder of the Company, Power Heritage, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 9,990,000,000 shares of HK$0.01 each.

(b) On 25 February 2012, all the shareholders of Extra Fame, namely, Power Heritage, Furui Investments and Sinostar, entered into a share transfer agreement with the Company, pursuant to which the shareholders of Extra Fame transferred the entire issued share capital of Extra Fame to the Company. On 25 February 2012, as the consideration of the acquisition, the Company issued and allotted 9,579,999, 231,000 and 189,000 new shares of the Company to Power Heritage, Furui Investments and Sinostar, respectively, and credited one nil paid share of the Company held by Power Heritage as fully paid. As a result, the Company was held as to 95.8% by Power Heritage, 2.31% by Furui Investments and 1.89% by Sinostar.

(c) On 25 February 2012, shareholders' written resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of all Shareholders passed on 25 February 2012" in Appendix V to the Prospectus which includes, conditional upon the granting of the listing of the shares of the Company by the Listing Committee of the Stock Exchange and the conditions in the Underwriting Agreements being fulfilled, 1,190,000,000 shares are to be issued and allotted to the Shareholders by way of capitalisation of the sum of HK$11,900,000 (approximately RMB9,639,000) standing to the credit of the share premium account of the Company, such shares ranking pari passu in all respect with the existing issued shares of the Company.

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33. Subsidiaries

Details of the Company's subsidiaries since 25 February 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Attributable equity interest of the Group 2011 %	2010 %	Principal activities
Extra Fame	British Virgin Islands	**100**	100	Investment holding
Jiangnan Cable*	PRC	**100**	100	Manufacture of and trading in wires and cables
Jiangnan Cable (HK)	Hong Kong	**100**	100	Investment holding
SA Asia Cable	South Africa	**100**	100	Trading in wires and cables

* *Directly held by Jiangnan Cable (HK) as a wholly foreign owned enterprise since 25 January 2011. Formerly was held by Extra Fame.*

Financial Summary

	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
Results			
Turnover	2,994,966	3,686,366	**4,929,876**
Cost of goods sold	(2,595,328)	(3,155,232)	**(4,194,986)**
Gross profit	399,638	531,134	**734,890**
Other income	18,682	8,414	**14,434**
Selling and distribution costs	(97,658)	(92,936)	**(103,421)**
Administrative expenses	(67,135)	(70,125)	**(95,958)**
Other expenses	(4,893)	(7,427)	**(23,495)**
Other gains and losses	7,355	(17,042)	**(11,499)**
Finance costs	(59,727)	(68,869)	**(126,352)**
Profit before taxation	196,262	283,149	**388,599**
Taxation	(32,706)	(51,330)	**(71,154)**
Profit for the year	163,556	231,819	**317,445**
Assets and liabilities			
Non-current assets	346,604	408,397	**411,993**
Current assets	2,163,324	2,661,182	**3,773,360**
Total assets	2,509,928	3,069,579	**4,185,353**
Current liabilities	1,929,375	2,102,216	**2,977,837**
Non-current liabilities	5,933	91,630	**25,505**
Total liabilities	1,935,308	2,193,846	**3,003,342**
Net assets	574,620	875,733	**1,182,011**