



**TRIGIANT GROUP LIMITED**

**俊知集團有限公司\***

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1300



**Interim Report 2016**

\* For identification purposes only



## CONTENTS

---

<b>2</b>	Corporate Information
<b>3</b>	Highlights
<b>4</b>	Report on Review of Condensed Consolidated Financial Statements
<b>5</b>	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
<b>6</b>	Condensed Consolidated Statement of Financial Position
<b>7</b>	Condensed Consolidated Statement of Changes in Equity
<b>8</b>	Condensed Consolidated Statement of Cash Flows
<b>9</b>	Notes to the Condensed Consolidated Financial Statements
<b>23</b>	Management Discussion and Analysis
<b>31</b>	Other Information



# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Qian Lirong (*Chairman*)  
Jiang Wei (*Group chief executive officer*)

## NON-EXECUTIVE DIRECTOR

Fung Kwan Hung

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Jin Xiaofeng  
Poon Yick Pang Philip  
Ng Wai Hung  
Jia Lina

## AUDIT COMMITTEE

Poon Yick Pang Philip (*Chairman*)  
Professor Jin Xiaofeng  
Ng Wai Hung  
Jia Lina

## REMUNERATION COMMITTEE

Ng Wai Hung (*Chairman*)  
Jiang Wei  
Poon Yick Pang Philip

## NOMINATION COMMITTEE

Professor Jin Xiaofeng (*Chairman*)  
Poon Yick Pang Philip  
Jia Lina

## CORPORATE GOVERNANCE COMMITTEE

Jiang Wei (*Chairman*)  
Poon Yick Pang Philip  
Ng Wai Hung

## COMPANY SECRETARY

Leung Siu Kei

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1801, 18/F  
Tai Tung Building  
8 Fleming Road  
Wanchai  
Hong Kong

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

No. 1 Junzhi Road  
Industrial Park For Environmental Protection  
Science & Technology  
Yixing City  
Jiangsu Province  
PRC

## COMPANY WEBSITE

[www.trigiant.com.hk](http://www.trigiant.com.hk)

## HKEX STOCK CODE

1300

## INVESTOR RELATIONS

Trigiant Group Limited  
Email: [ir@trigiant.com.cn](mailto:ir@trigiant.com.cn)

DLK Advisory Limited  
(*as the Company's investor relations consultant*)  
Email: [ir@dlkadvisory.com](mailto:ir@dlkadvisory.com)

## AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

## LEGAL ADVISER

Leung & Lau (*as to Hong Kong laws*)

## PRINCIPAL BANKERS

Agricultural Bank of China  
Bank of China  
Bank of Communications  
Bank of Jiangsu  
China Citic Bank  
China Construction Bank  
HSBC  
Industrial and Commercial Bank of China  
OCBC Bank

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

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## HIGHLIGHTS

Interim results for the six months ended 30 June 2016 compared with the six months ended 30 June 2015:

- Turnover decreased by approximately RMB154.8 million, or 10.4%, to approximately RMB1,335.6 million;
- Gross profit margin decreased by approximately 1.2 percentage point to approximately 21.4%;
- Profit for the period attributable to owners of the Company decreased by approximately RMB64.1 million, or 45.6%, to approximately RMB76.4 million;
- Net profit margin decreased from approximately 9.4% to approximately 5.7%;
- Earnings per share decreased from RMB10.75 cents to RMB4.88 cents; and
- Interim dividend declared was HK1.2 cents per share.

The board ("**Board**") of directors ("**Directors**") of Trigiant Group Limited ("**Company**") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 and the relevant explanatory notes as set out below.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



## TO THE BOARD OF DIRECTORS OF TRIGIANT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

### INTRODUCTION

We have reviewed the condensed consolidated financial statements of Trigiant Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 22, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 August 2016

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

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Turnover	3	<b>1,335,630</b>	1,490,443
Cost of goods sold		<b>(1,050,458)</b>	(1,152,969)
Gross profit		<b>285,172</b>	337,474
Other income	4	<b>8,303</b>	10,134
Other gains and losses	5	<b>(88,667)</b>	200
Selling and distribution costs		<b>(31,849)</b>	(32,998)
Administrative expenses		<b>(29,670)</b>	(28,418)
Research and development costs		<b>(24,870)</b>	(21,707)
Fair value change of warrants	18	<b>7,429</b>	(27,346)
Finance costs		<b>(30,382)</b>	(40,626)
Profit before taxation	6	<b>95,466</b>	196,713
Taxation	7	<b>(6,222)</b>	(39,967)
Profit and total comprehensive income for the period		<b>89,244</b>	156,746
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		<b>76,374</b>	140,450
Non-controlling interests		<b>12,870</b>	16,296
		<b>89,244</b>	156,746
Earnings per share	9		
— basic		<b>4.88 cents</b>	10.75 cents
— diluted		<b>4.88 cents</b>	10.75 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	<i>Notes</i>	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
<b>Non-current assets</b>			
Investment properties	10	6,900	6,900
Property, plant and equipment	11	297,892	283,211
Land use rights		74,784	75,842
Intangible asset	12	102,854	108,904
Goodwill	13	41,773	41,773
Available-for-sale investments		6,755	6,375
		<b>530,958</b>	523,005
<b>Current assets</b>			
Inventories		120,973	95,686
Trade and other receivables	14	3,225,190	3,055,860
Pledged bank deposits		425,262	541,428
Bank balances and cash		335,260	233,825
		<b>4,106,685</b>	3,926,799
<b>Current liabilities</b>			
Trade and other payables	15	540,412	418,106
Bank borrowings — due within one year	16	1,350,562	1,302,315
Tax payables		38,996	39,444
		<b>1,929,970</b>	1,759,865
<b>Net current assets</b>		<b>2,176,715</b>	2,166,934
<b>Total assets less current liabilities</b>		<b>2,707,673</b>	2,689,939
<b>Non-current liabilities</b>			
Government grants		2,680	1,073
Deferred taxation	17	8,591	30,184
Warrants	18	268	7,617
		<b>11,539</b>	38,874
<b>Net assets</b>		<b>2,696,134</b>	2,651,065
<b>Capital and reserves</b>			
Share capital	19	12,651	12,651
Reserves		2,538,366	2,506,167
Equity attributable to owners of the Company		<b>2,551,017</b>	2,518,818
Non-controlling interests		145,117	132,247
<b>Total equity</b>		<b>2,696,134</b>	2,651,065

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company											
	Share capital	Share premium	Capital redemption reserve	Statutory surplus reserve fund	Special reserve	Other reserve	Property revaluation reserve	Share option reserve	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	(Note b)	(Note c)							
At 1 January 2016 (audited)	12,651	1,279,211	101	290,326	62,947	24	622	15,194	857,742	2,518,818	132,247	2,651,065
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	-	76,374	76,374	12,870	89,244
Recognition of equity-settled share based payment	-	-	-	-	-	-	-	2,134	-	2,134	-	2,134
Final dividend recognised as distribution	-	-	-	-	-	-	-	-	(46,309)	(46,309)	-	(46,309)
Transfer	-	-	-	(9,476)	-	-	-	-	9,476	-	-	-
At 30 June 2016 (unaudited)	12,651	1,279,211	101	280,850	62,947	24	622	17,328	897,283	2,551,017	145,117	2,696,134
At 1 January 2015 (audited)	10,629	840,175	-	234,519	62,947	24	622	5,663	801,709	1,956,288	105,734	2,062,022
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	-	140,450	140,450	16,296	156,746
Repurchase of shares	(79)	(12,965)	79	-	-	-	-	-	(79)	(13,044)	-	(13,044)
Recognition of equity-settled share based payment	-	-	-	-	-	-	-	4,316	-	4,316	-	4,316
Final dividend recognised as distribution	-	-	-	-	-	-	-	-	(72,051)	(72,051)	-	(72,051)
At 30 June 2015 (unaudited)	10,550	827,210	79	234,519	62,947	24	622	9,979	870,029	2,015,959	122,030	2,137,989

## Notes:

- (a) During the prior interim period, 10,000,000 shares of HK\$0.01 each were repurchased at a total consideration of HK\$16,541,000 (approximately RMB13,044,000). All of the shares repurchased during the prior period were cancelled and the nominal value of such cancelled shares was credited to capital redemption reserve and paid out from the Company's accumulated profits, and the relevant premium was paid out from the Company's share premium.
- (b) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China ("PRC"), the PRC subsidiaries of the Company are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by directors of those subsidiaries annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.
- (c) The special reserve represents the deemed contribution arising from acquisition of a subsidiary in 2009.



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Net cash (used in) from operating activities	<b>(15,210)</b>	33,399
Investing activities		
Release of pledged bank deposits	<b>864,009</b>	404,786
Interest received	<b>6,683</b>	7,390
Proceeds from disposal of property, plant and equipment	<b>256</b>	40
New pledged bank deposits placed	<b>(747,843)</b>	(518,718)
Purchase of property, plant and equipment	<b>(32,485)</b>	(35,500)
Increase in investment of available-for-sale	<b>(380)</b>	–
Payment for acquisition of land use rights	–	(12,896)
Net cash from (used in) investing activities	<b>90,240</b>	(154,898)
Financing activities		
New bank borrowings raised	<b>1,033,101</b>	1,313,246
Repayment of bank borrowings	<b>(984,854)</b>	(1,042,765)
Interest paid	<b>(21,842)</b>	(41,423)
Dividends paid	–	(72,051)
Repurchase of shares	–	(13,044)
Net cash from financing activities	<b>26,405</b>	143,963
Net increase in cash and cash equivalents	<b>101,435</b>	22,464
Cash and cash equivalents at 1 January	<b>233,825</b>	487,714
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>335,260</b>	510,178

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the fair value of the consideration received and receivable for goods sold during the period, net of discounts and sales related taxes.

The Group’s chief operating decision maker has been identified as the executive directors (“Executive Directors”) who review the business with the following reportable and operating segments by products:

- Feeder cable series
- Optical fibre cable series and related products
- Flame-retardant flexible cable series
- New-type electronic components
- Other accessories (including splitters, couplers and combiners)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 3. TURNOVER AND SEGMENT INFORMATION (continued)

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

The segment results represent the gross profits earned by each segment (segment revenue less segment cost of goods sold). Other income, other gains and losses, selling and distribution costs, administrative expenses, research and development costs, fair value change of warrants, finance costs and taxation are not allocated to each reportable segment. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

The following is an analysis of the Group's turnover and results by reportable segments:

For the six months ended 30 June 2016

	Feeder cable series RMB'000	Optical fibre cable series and related products RMB'000	Flame- retardant flexible cable series RMB'000	New-type electronic components RMB'000	Other accessories RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Turnover							
— External sales	663,846	389,899	224,132	51,646	6,107	–	1,335,630
— Inter-segment sales	–	168,420	218	–	–	(168,638)	–
	663,846	558,319	224,350	51,646	6,107	(168,638)	1,335,630
Cost of goods sold	(516,272)	(479,752)	(183,088)	(34,707)	(5,277)	168,638	(1,050,458)
SEGMENT RESULT	147,574	78,567	41,262	16,939	830	–	285,172
Unallocated income and expenses:							
Other income							8,303
Other gains and losses							(88,667)
Selling and distribution costs							(31,849)
Administrative expenses							(29,670)
Research and development costs							(24,870)
Fair value change of warrants							7,429
Finance costs							(30,382)
Profit before taxation							95,466
Taxation							(6,222)
Profit for the period							89,244

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 3. TURNOVER AND SEGMENT INFORMATION (continued)

For the six months ended 30 June 2015

	Feeder cable series RMB'000	Optical fibre cable series and related products RMB'000	Flame- retardant flexible cable series RMB'000	New-type electronic components RMB'000	Other accessories RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Turnover							
— External sales	797,929	375,967	248,233	51,282	17,032	–	1,490,443
— Inter-segment sales	–	150,357	350	–	–	(150,707)	–
	797,929	526,324	248,583	51,282	17,032	(150,707)	1,490,443
Cost of goods sold	(609,436)	(444,159)	(198,450)	(37,149)	(14,482)	150,707	(1,152,969)
SEGMENT RESULT	188,493	82,165	50,133	14,133	2,550	–	337,474
Unallocated income and expenses:							
Other income							10,134
Other gains and losses							200
Selling and distribution costs							(32,998)
Administrative expenses							(28,418)
Research and development costs							(21,707)
Fair value change of warrants							(27,346)
Finance costs							(40,626)
Profit before taxation							196,713
Taxation							(39,967)
Profit for the period							156,746

## 4. OTHER INCOME

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Government grants	387	291
Interest income	6,684	8,433
Rental income	200	200
Others	1,032	1,210
	<b>8,303</b>	10,134



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Allowance for bad and doubtful debts	(81,659)	–
Exchange (loss) gain	(7,008)	70
Gain on fair value changes on investment properties	–	130
	<b>(88,667)</b>	200

## 6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Cost of inventories recognised as expenses	<b>1,050,458</b>	1,152,969
Operating lease rentals in respect of land use rights	<b>1,557</b>	875
Gain on disposal of property, plant and equipment	<b>64</b>	–
Depreciation of property, plant and equipment	<b>14,955</b>	13,967
Amortisation of intangible asset	<b>6,050</b>	6,050
and after crediting:		
Gross rental income from investment properties (net of nil direct operating expenses)	<b>200</b>	200

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 7. TAXATION

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
The charge (credit) comprises:		
PRC Enterprise Income Tax	27,815	40,956
Deferred taxation (note 17)	(21,593)	(989)
Taxation for the period	6,222	39,967

The PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Pursuant to the relevant laws and regulations, the principal subsidiaries of the Company in the PRC were endorsed as High and New Technology Enterprises and entitled to a preferential tax rate of 15% pursuant to the Enterprise Income Tax Law ("EIT Law") of the PRC.

According to the relevant tax law in the PRC, dividends distributed to foreign investors out of the profit generated from 1 January 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the EIT Law and Article 91 of its Detail Implementation Rules.

No provision for Hong Kong Profits Tax was made in the condensed consolidated financial statements as the Group did not derive assessable profits from Hong Kong for both periods.

## 8. DIVIDENDS

During the current interim period, the Company declared a final dividend of HK3.5 cents per share in respect of the year ended 31 December 2015 (six months ended 30 June 2015: final dividend of HK7 cents per share in respect of the year ended 31 December 2014). The aggregate amount of the final dividend in respect of the year ended 31 December 2015 declared in the current interim period amounted to HK\$54,722,500 (equivalent to approximately RMB46,309,000) (2015: HK\$91,350,000 (equivalent to approximately RMB72,051,000)).

Subsequent to the end of the current interim period, interim dividend of HK1.2 cents (six months ended 30 June 2015: HK7 cents) per share has been declared by the Directors.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
<b>Earnings:</b>		
Profit for the period attributable to the owners of the Company for the purpose of basic and diluted earnings per share	<b>76,374</b>	140,450
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<b>1,563,500,000</b>	1,306,782,044

The computation of diluted earnings per share does not assume the exercise of the Company's share options and warrants because the exercise price of those share options and warrants were higher than the average market price of the Company's shares during both periods.

## 10. INVESTMENT PROPERTIES

The fair value of the Group's investment properties at 30 June 2016 and 31 December 2015 have been arrived at on the basis of a valuation carried out at those dates by Savills Valuation and Professional Services Limited, independent qualified professional valuer not connected to the Group. The valuation was arrived at based on income method on the basis of capitalisation of net income based on a schedule provided by the management of the Group with due allowance for reversionary income potential of the property and where appropriate, also considered direct comparison approach by making reference to the comparable market transactions as available in the market.

All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

There is no change in fair value of investment properties recognised in profit and loss for the six months ended 30 June 2016 (six months ended 30 June 2015: increase in fair value of RMB130,000).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group spent approximately RMB30,016,000 (six months ended 30 June 2015: RMB31,778,000) on acquisition of property, plant and equipment.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 12. INTANGIBLE ASSET

The intangible asset represents customer relationship acquired by the Group as part of a business combination during the year ended 31 December 2014 and has a finite useful life and is amortised on a straight line basis over 10 years.

## 13. GOODWILL

The goodwill is allocated to the respective cash generating unit ("CGU"). At 30 June 2016, the directors of the Company conducted a review of the carrying value of goodwill and determine that there is no impairment of the CGU containing that goodwill. The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management covering a period of 5 year period and discount rate of 16.43% (31 December 2015: 16.43%). The CGU's cash flows beyond the 5 year period are extrapolated using a steady 3% (31 December 2015: 3%) growth rate. This growth rate is based on the relevant industry growth rate forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this CGU to exceed the aggregate recoverable amount of this CGU.

## 14. TRADE AND OTHER RECEIVABLES

The Group normally allows a credit period ranging from 180 to 360 days to its customers.

The following is an analysis of trade and other receivables and an aged analysis of trade and bills receivables, net, presented based on the invoice date, or otherwise, delivery date, at the end of the reporting period, which approximated the respective revenue recognition dates:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade and bills receivables, net, aged		
0-90 days	885,419	831,608
91-180 days	604,318	748,358
181-365 days	1,163,955	1,239,015
Over 365 days	544,511	208,513
	<b>3,198,203</b>	3,027,494
Current portion of land use rights	2,120	2,120
Interest receivables	8,002	7,738
Other receivables	3,844	12,132
Prepaid expenses	10,745	4,254
Staff advances	2,276	2,122
	<b>3,225,190</b>	3,055,860



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 15. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables and an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade and bills payables, aged		
0–90 days	241,351	138,489
91–180 days	173,212	216,993
181–365 days	27,157	1,144
	<b>441,720</b>	356,626
Accrued expenses	10,044	9,695
Payroll and welfare payables	9,621	17,087
Other tax payables	10,257	12,770
Deposits from suppliers	11,528	11,860
Payable for acquisition of property, plant and equipment	1,418	65
Dividend payables	46,771	–
Other payables	9,053	10,003
	<b>540,412</b>	418,106

## 16. BANK BORROWINGS

During the current interim period, the Group obtained new short-term bank loans amounting to RMB1,033,101,000 (six months ended 30 June 2015: RMB1,313,246,000) and repaid bank loans amounting to RMB984,854,000 (six months ended 30 June 2015: RMB1,042,765,000). The proceeds were used for daily operation of the Group.

## 17. DEFERRED TAXATION

The followings are the deferred tax liabilities recognised by the Group and movements thereon during the period:

	Intangible asset RMB'000	Fair value adjustment on acquisition RMB'000	Tax on undistributed earnings RMB'000	Revaluation of properties RMB'000	Allowance for bad and doubtful debts RMB'000	Total RMB'000
At 1 January 2015	30,252	8,515	7,857	2,034	–	48,658
(Credited) charged to profit or loss for the year	(3,025)	(179)	10,428	(18)	(15,680)	(8,474)
Withholding tax recognised	–	–	(10,000)	–	–	(10,000)
At 31 December 2015	27,227	8,336	8,285	2,016	(15,680)	30,184
(Credited) charged to profit or loss for the period	(1,512)	(89)	423	–	(20,415)	(21,593)
At 30 June 2016	25,715	8,247	8,708	2,016	(36,095)	8,591

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 18. WARRANTS

	Number of underlying shares upon exercise of Warrants	Exercise price HK\$
Balance at 31 December 2015 and 30 June 2016	200,000,000	3.15
Exercisable at 31 December 2015 and 30 June 2016	200,000,000	3.15

On 10 April 2014, the Company issued unlisted warrants ("Warrants") at an issue price of HK\$0.01 per unit of Warrant (approximately RMB0.008 each) entitling the holders thereof to subscribe in cash for up to an aggregate amount of HK\$630,000,000 for new shares of the Company ("Warrant Shares") upon the exercise of the subscription rights attached to the Warrants at a subscription price of HK\$3.15 per Warrant Share (subject to adjustments) at any time for the period commencing from the date of issue of the Warrants (i.e. 10 April 2014) and ending on the third anniversary thereof (or if that is not a business day, the first business day immediately following such date (both days inclusive)). Based on the initial subscription price of HK\$3.15 per Warrant Share, upon the exercise of the subscription rights attached to the Warrants in full, 200,000,000 Warrant Shares will be issued.

The ascribed values of the Warrants at the issue date and at the end of the respective reporting period were determined using binomial option pricing model and the inputs used are as follows:

	31 December 2015	30 June 2016
Share price	HK\$1.57	<b>HK\$1.23</b>
Exercise price	HK\$3.15	<b>HK\$3.15</b>
Risk rate	0.24%	<b>0.25%</b>
Dividend yield	7.84%	<b>6.98%</b>
Volatility	50.46%	<b>45.21%</b>
Remaining life	1.28 years	<b>0.78 years</b>

The movement of the carrying amount of Warrants during the period is set out below:

	RMB'000
At 1 January 2016	7,617
Change in fair value	(7,429)
Exchange realignment	80
At 30 June 2016	268

At 30 June 2016, the fair value of the Warrants outstanding was RMB268,000 (31 December 2015: RMB7,617,000). A fair value change of RMB7,429,000 is recognised in the current period and the amount has been credited to profit or loss (six months ended 30 June 2015: RMB27,346,000 charged to profit or loss). None of the Warrants have been exercised during the current and prior periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 19. SHARE CAPITAL

	Number of shares	Amount in HK\$	Shown in the financial statements as RMB'000
<b>Ordinary shares at HK\$0.01 each</b>			
Authorised:			
At 1 January 2015, 31 December 2015 and 30 June 2016	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2015	1,315,000,000	13,150,000	10,629
Repurchase of shares (note a)	(12,500,000)	(125,000)	(101)
Issue of shares (note b)	261,000,000	2,610,000	2,123
At 31 December 2015 and 30 June 2016	1,563,500,000	15,635,000	12,651

Notes:

- (a) During the year ended 31 December 2015, 12,500,000 shares of HK\$0.01 each were repurchased at a total consideration of approximately HK\$20,430,000 (equivalent to approximately RMB16,615,000). The price of repurchases was ranging from HK\$1.50 to HK\$1.80 for each share.
- (b) On 6 June 2015, the Company entered into a subscription agreement ("Subscription Agreement") with an independent third party to allot and issue 261,000,000 ordinary shares of HK\$0.01 each ("Subscription Shares") at a subscription price of HK\$2.27 per Subscription Share, further particulars of which are set out in the announcement of the Company dated 7 June 2015. The completion of the Subscription Agreement took place on 14 July 2015.

## 20. SHARE OPTIONS

### SHARE OPTION SCHEME OF THE COMPANY

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 May 2014, the Company adopted a share option scheme ("Scheme").

Under the Scheme which is valid for a period of ten years commencing on 29 May 2014, the board of directors of the Company may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants") who contribute to the long term growth and profitability of the Company. The Eligible Participants include (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest; (b) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of any member of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (f) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and (g) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, in order to provide incentives or rewards for the Eligible Participants' contribution to the Group.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 20. SHARE OPTIONS (continued)

### SHARE OPTION SCHEME OF THE COMPANY (continued)

The subscription price for the Company's shares shall be a price at least equal to the highest of i) the nominal value of the Company's shares; ii) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of an offer of the grant of the options; and iii) the closing price of the Company's shares quoted on the Stock Exchange on the date of an offer of the grant of the options. The options must be taken up within 21 days from the date of grant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than ten years from the date of offer of that option.

The initial total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group (excluding options lapsed in accordance with the terms of the Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the Scheme. The maximum number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Group must not exceed 30% of the Company's shares in issue from time to time. The total number of the Company's shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

A total of 74,400,000 share options were granted on 20 June 2014 under the Scheme and a total of 72,800,000 share options remained outstanding as at 30 June 2016. The closing price of the shares of the Company immediately before the date of grant of share options was HK\$2.0. The fair value of the share options on date of grant was approximately HK\$33,019,000 (approximately RMB26,085,000) which is calculated using Black-Scholes Pricing Model based on risk free rate of 0.742% to 1.724%, expected volatility of 53.663%, expected life of 3 to 7 years and expected dividend rate of 7.0%. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The Group recognised a share-based payment expense of approximately RMB2,995,000 during the period ended 30 June 2016 (six months ended 30 June 2015: RMB4,316,000). In respect of each grantee, the share options shall vest in five equal tranches over five years commencing from the date falling on first anniversary of 4 July 2014, being the date of acceptance, as to 20% of the share options for the first tranche (4 July 2015) and 20% of the share options on each of the following four tranches (that is, 4 July 2016, 2017, 2018 and 2019 respectively), subject to the relevant grantee remaining as an eligible person under the Scheme at the time of each vesting of the share options, and the share options vested are exercisable during a two years period commencing from the date of vesting of the relevant share options.

As at 30 June 2016, 14,560,000 shares were issuable under the Scheme (31 December 2015: 14,560,000 shares).



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 20. SHARE OPTIONS (continued)

### SHARE OPTION SCHEME OF THE COMPANY (continued)

A summary of the movements of the number of share options under the Scheme for the period is as follows:

Date of grant	Balance at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2015 and 30 June 2016	Exercise price	Exercisable period
<i>Granted to directors on</i>							
20 June 2014	720,000	–	–	–	720,000	HK\$3.15	4 July 2015 to 3 July 2017
20 June 2014	720,000	–	–	–	720,000	HK\$3.15	4 July 2016 to 3 July 2018
20 June 2014	720,000	–	–	–	720,000	HK\$3.15	4 July 2017 to 3 July 2019
20 June 2014	720,000	–	–	–	720,000	HK\$3.15	4 July 2018 to 3 July 2020
20 June 2014	720,000	–	–	–	720,000	HK\$3.15	4 July 2019 to 3 July 2021
Sub-total	3,600,000	–	–	–	3,600,000		

Date of grant	Balance at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31 December 2015 and 30 June 2016	Exercise price	Exercisable period
<i>Granted to employees on</i>							
20 June 2014	14,160,000	–	–	(320,000)	13,840,000	HK\$3.15	4 July 2015 to 3 July 2017
20 June 2014	14,160,000	–	–	(320,000)	13,840,000	HK\$3.15	4 July 2016 to 3 July 2018
20 June 2014	14,160,000	–	–	(320,000)	13,840,000	HK\$3.15	4 July 2017 to 3 July 2019
20 June 2014	14,160,000	–	–	(320,000)	13,840,000	HK\$3.15	4 July 2018 to 3 July 2020
20 June 2014	14,160,000	–	–	(320,000)	13,840,000	HK\$3.15	4 July 2019 to 3 July 2021
Sub-total	70,800,000	–	–	(1,600,000)	69,200,000		
Total	74,400,000	–	–	(1,600,000)	72,800,000		

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### FAIR VALUE OF THE GROUP'S FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

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

Financial liability	Fair value at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs and relationship
	30 June 2016	31 December 2015			
	RMB'000	RMB'000			
Financial liability at fair value through profit or loss: Warrants	268	7,617	Level 2	Binomial model Key inputs: (1) Share price (2) Exercise price (3) Risk free rate (4) Dividend yield (5) Expected volatility (6) Expected life	The higher the risk free rate, dividend yield and expected volatility, the higher the fair value.

There were no transfers between Level 1, 2 and 3 during both periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 22. OPERATING LEASE COMMITMENTS

### THE GROUP AS LESSEE

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within one year	872	849
In the second to fifth years inclusive	–	101
	<b>872</b>	<b>950</b>

The leases are negotiated for a lease term of 1 to 2 years at fixed monthly rental.

### THE GROUP AS LESSOR

Property rental income earned during the current period was RMB200,000 (six months ended 30 June 2015: RMB200,000). The Group's properties are expected to generate rental yield of 4.0% on an ongoing basis. All of the properties held have a committed tenant for the next two years (31 December 2015: two years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within one year	401	67
In the second to fifth years inclusive	667	–
	<b>1,068</b>	<b>67</b>

## 23. RELATED PARTY TRANSACTIONS

The Group had no significant transactions and balances with related parties during the period. The key management personnel of the Group are the directors of the Company. During the six months ended 30 June 2016, directors' emoluments of approximately RMB1,368,000 (six months ended 30 June 2015: RMB1,332,000) were paid or payable to the directors of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

During the six months ended 30 June 2016 ("Period"), the Group's operating performance was affected by the PRC's economic slowdown and declined copper price. While macroeconomic growth remained weak, many investors turned to low-risk investment products, which resulted in a continued weakening of commodity prices, including copper price which declined by approximately 16.2% as compared to corresponding period in last year. The Group's feeder cable series and flame-retardant flexible series are mainly made of copper and their selling prices are linked to copper price. Therefore, their selling prices decreased along with copper price during the Period, which in turn resulted in decreases in turnover and gross profit of such products. However, it is believed that the selling prices of the Group's products will benefit from the stabilising commodity prices since 2016.

The increasing demand for mobile applications such as mobile games, outdoor live broadcasting, network video and even online shopping has given rise to a booming mobile communications market, with the number of mobile phone users steadily going up. According to the statistical data released by the Ministry of Industry and Information Technology of the PRC ("MIIT"), the number of 4G mobile phone users increased from approximately 390 million in December 2015 to approximately 612 million in June 2016. As the Group's products are indispensable components in mobile communications networks, the Group continued to record a solid growth in its sales volumes. In respect of optical cable installations and high-speed broadband coverage, with the expeditious implementation of the "Broadband China" and "Fiber To The Home" ("FTTH") strategies, the number of FTTH users soared to approximately 180 million, accounting for about 68.4% of total broadband users in the PRC. Benefiting from the growing demand and an increasing number of users, the Group continued to post an increase in turnover generated from its optical fibre cable series.

As can be seen from the foregoing, the three major telecommunications operators in the PRC continued to increase their investment in communications infrastructure and the number of 4G network and broadband users maintained an impressive growth in the first half of 2016. In addition, China Radio and Television Network Co., Ltd.\* 中國廣播電視網絡有限公司 was granted a basic telecommunications operating permit by the MIIT in May 2016 and is likely to become the fourth telecommunications operator in China. The Group's products are the core components of mobile communication and optical transmission networks, and their application range is expanding along with the growing demand of communications markets. As such, the development prospects of these products remain optimistic.

## RESULT ANALYSIS

During the Period, the Group underwent steady increases in the sales volumes of its feeder cable series and flame-retardant flexible cable series due to the growing demand of mobile communication markets. However, the selling prices of the Group's feeder cable and the flame-retardant flexible cable series, which are linked to the prices of copper, a major raw material, were lowered because the average price of copper, dropped by approximately 16.2% as compared to corresponding period in last year. Meanwhile, the major telecommunications operators in the PRC invested relatively more in indoor mobile networks construction which mainly used small-sized feeder cables with lower unit price. Therefore, turnover from feeder cable series and flame-retardant flexible cable series for the Period decreased as compared with the corresponding period in last year.



## MANAGEMENT DISCUSSION AND ANALYSIS

Although optical fibre cable series continued to record a growth, the Group's turnover decreased by approximately 10.4% from approximately RMB1,490.4 million in the first half of 2015 to approximately RMB1,335.6 million in the first half of 2016. Gross profit decreased by approximately 15.5% from approximately RMB337.5 million in the first half of 2015 to approximately RMB285.2 million in the first half of 2016, and gross profit margin decreased by approximately 1.2 percentage points from approximately 22.6% in the first half of 2015 to approximately 21.4% in the first half of 2016.

During the Period, the Group recorded an exchange loss of approximately RMB7,000,000 because certain of its bank loans were denominated in foreign currencies and therefore affected by the RMB exchange rate fluctuations. Furthermore, an allowance on doubtful debts of approximately RMB81,700,000 was made for trade receivables due to extension of the payment period by customers on certain trade receivables.

Profit for the Period attributable to owners of the Company decreased by approximately 45.6% from approximately RMB140.5 million in the first half of 2015 to approximately RMB76.4 million in the first half of 2016. Net profit margin decreased by approximately 3.7 percentage points to approximately 5.7% as compared to the corresponding period in last year.

### BREAKDOWN OF TURNOVER BY PRODUCTS

	Six months ended 30 June		Year-on-Year	Year-on-Year
	2016	2015	Change	Change
	RMB'000	RMB'000	RMB'000	%
Feeder cable series	<b>663,846</b>	797,929	-134,083	-16.8%
Optical fibre cable series and related products	<b>389,899</b>	375,967	+13,932	+3.7%
Flame-retardant flexible cable series	<b>224,132</b>	248,233	-24,101	-9.7%
New-type electronic components	<b>51,646</b>	51,282	+364	+0.7%
Other accessories	<b>6,107</b>	17,032	-10,925	-64.1%
<b>Total</b>	<b>1,335,630</b>	1,490,443	-154,813	-10.4%

#### Feeder Cable Series — *Approximately 49.7% of The Total Turnover*

Benefiting from the continued growth in mobile communications networks construction, the sales volume of feeder cable series increased by 7,300 kilometres to approximately 78,700 kilometres for the Period as compared to the corresponding period in last year. The average price of feeder cable series, however, decreased mainly due to a year-on-year decrease of approximately 16.2% in the average price of copper, the major raw materials. Further, during the Period, the telecommunications operators increased the proportion of indoor mobile networks construction which mainly used small-sized feeder cables with lower unit price. During the Period, turnover from the feeder cable series decreased by approximately 16.8% to approximately RMB663.8 million. As the Group adopts the cost-plus-profit pricing model, the selling price of feeder cable is adjusted accordingly when copper price fluctuates, which in turn effectively helps stabilise the gross profit margin. In order to enhance competitiveness, the Group also lowered the price of feeder cable products in the Period, which caused the gross profit margin to decrease by approximately 1.4 percentage points to approximately 22.2% as compared to the corresponding period in last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Optical Fibre Cable Series — *Approximately 29.2% of The Total Turnover***

The “Broadband China” and “FTTH” strategies have given rise to an ever-growing demand for optical fibres and cables, which in turn drove the continuing growth of the Group’s optical fibre cable business. During the Period, the Group seized the market opportunity to expand the annual production capacity of its optical fibre cable series. The sales volume of optical fibre cable series for the Period increased by approximately 0.65 million fibre kilometres to approximately 4.4 million fibre kilometres as compared to the corresponding period in last year. The turnover of optical fibre cable series for the Period amounted to approximately RMB389.9 million, representing an increase of approximately 3.7% as compared to the corresponding period in last year.

## **Flame-Retardant Flexible Cable Series — *Approximately 16.8% of The Total Turnover***

Another main product of the Group, the flame-retardant flexible cable series, also benefited from the nationwide construction of mobile communications networks. However, as its average selling price was also affected by the declined copper price, the turnover of the flame-retardant flexible cable series for the Period decreased by approximately 9.7% to approximately RMB224.1 million as compared to corresponding period in last year.

## **MAJOR CUSTOMERS AND SALES NETWORK**

With a good track record, diverse product portfolio, excellent product quality and comprehensive and efficient after-sales services, the Group has been able to maintain sound cooperation with the three major telecommunications operators in the PRC. As at 30 June 2016, the Group maintained business relationships with all 31 provincial subsidiaries of China United Network Communications Corporation Limited\* (中國聯合網絡通信有限公司) (“China Unicom”), 27 out of the 31 provincial subsidiaries of China Mobile Communications Corporation\* (中國移動通信集團公司) (“China Mobile”) and 26 out of the 31 provincial subsidiaries of China Telecommunications Corporation\* (中國電信集團公司) (“China Telecom”). During the Period, turnover derived from China Unicom, China Mobile and China Telecom accounted for approximately 37.0%, 33.5% and 18.2% of the Group’s overall turnover, respectively. In addition to the close cooperation with the three major telecommunication operators in the PRC, the Group also maintained good business relationship with China Tower Corporation Limited\* (中國鐵塔股份有限公司) (“China Tower”). As at 30 June 2016, the Group was a supplier to 24 provincial subsidiaries of China Tower.

## **PATENTS, AWARD AND RECOGNITION**

As at 30 June 2016, the Group had obtained 76 patents and developed 84 new products in the PRC. 44 products of the Group were granted Advanced Technology Product Certificate by the Science and Technology Department of Jiangsu Province. In 2016, the Group received various awards and honours which included the following:

- according to the statistics from the Optical Fiber and Electric Cable Sub-association of the China Electronics Components Association (中國電子元件行業協會光電線纜分會), Jiangsu Trigiant Technology Co., Ltd. (“Trigiant Technology”), a major subsidiary of the Group, ranked first in terms of sales volume of feeder cable among the feeder cable manufacturers in the PRC for six consecutive years from 2010 to 2015;
- Trigiant Technology was named as Model Enterprise of Industrial Brand Development (工業品牌培育示範企業) by the MIIT; and
- Trigiant Technology ranked 14th in the 29th Session of Top 100 PRC Electronic Component Enterprises 2016 (中國電子元件百強).

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS AND FUTURE PLANS

In the first half of 2016, the feeder cable business slowed down somewhat due to the combined effect of declined copper price, change in specification mix and selling price adjustment. Nevertheless, as commodity prices are stabilising and market sentiment is turning positive, which will bring good development prospects for the Group's feeder cable series and flame-retardant flexible cable series business.

The ongoing construction of communication networks will be further stimulated and boosted by further improvement in China's 3G and 4G network coverage, rapid growing demand driven by 4G commercialisation and "Internet Plus" boom, which will bring more opportunities to communications equipment suppliers in the second half of 2016. At the news conference held on 28 April 2016, the MIIT stated that it would continue to promote the 4G network construction while improving the breadth and depth of 4G network coverage, and it's estimated that there will be about 260 million more 4G users in 2016, which meant that the total 4G users would reach approximately 700 million in the PRC. The three major telecommunications operators in the PRC will continue to expedite their 4G network construction. In addition, the MIIT said it would implement the "three-network convergence" program (i.e., the convergence of telecommunications network, Internet network and broadcasting network), carry out 5G network technology experiments and preliminary studies on the grant of commercial permit and actively participate in the development of international standards for 5G network.

An ever-increasing number of users and a growing and diverse demand have paved the way for Internet infrastructure construction and the development of related services. The Group will better position itself by continuing to enhance its research and development capabilities, product quality and production capacity as well as implementing effective cost controls. Meanwhile, the Group will adjust its product sales channels based on market demand and continue to maintain close partnership with the three major telecommunications operators and China Tower in the PRC through effective marketing strategies and good communication skills of its sales teams, thereby further expanding its business and revenue sources.

With the advancement of the "Broadband China" strategy in recent years, the high-speed broadband coverage and the proportion of FTTH users in the PRC have been expanding, bringing more opportunities for the Group's optical fibre cable series. The MIIT said it would strive for a full coverage of optical fibre networks in districted cities across China by the end of 2016. In the second half of 2016, the FTTH strategy will be further implemented such that the optical fibre renovation projects at old residential communities in urban areas will accelerate the construction of urban optical networks and accomplish its plan to achieve a full coverage of optical fibre networks in urban areas by the end of 2016. Based on the foregoing, it is expected that there will be a more solid foundation for future high-quality Internet applications and a broader application range for the Group's optical fibre cable products. The Group will timely ramp up its production capacity of optical fibre cables to be in a better position to seize the business opportunities in the fibre broadband market brought about by "Broadband China" strategy.

While enhancing its development in the domestic market, the Group also actively explored broader overseas markets. During the Period, the Group focused on strengthening its presence in Southeast Asia and the Middle East and proactively sought for more cooperation opportunities. In the second half of 2016, the Group will continue to participate in telecommunication exhibitions held in Dubai, Thailand and other regions to secure more purchase orders and lay a strong foundation for the Group to further expand its market presence in Southeast Asia and the Middle East countries in the future.

As the Russian economy gradually recovered, the Group continued to visit local telecommunications operators to consolidate its business network and seek for more market opportunities. The Group also actively established business connection with manufacturers from India and South Korea with an aim to open up more markets for the Group's business.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### TURNOVER

Turnover decreased by approximately RMB154.8 million, or 10.4%, from approximately RMB1,490.4 million in the first half of 2015 to approximately RMB1,335.6 million in the first half of 2016. The increase in turnover contributed by the sale of optical fibre cable series of approximately RMB13.9 million was offset by the decrease in turnover of feeder cable series, flame-retardant flexible cable series and other accessories of approximately RMB134.1 million, RMB24.1 million and RMB10.9 million, respectively. Decrease in turnover of feeder cable series and flame-retardant flexible cable is primarily driven by decreased selling prices, which is mainly due to a decrease in average copper price in the first half of 2016, the major raw materials whose prices are linked to the selling price, and lowered selling price of the Group's feeder cable series to increase its competitiveness.

### COST OF GOODS SOLD

For both periods, cost of materials consumed remained the major components of the cost of goods sold. Cost of goods sold decreased along with the decrease in turnover by approximately RMB102.5 million, or 8.9%, from approximately RMB1,153.0 million in the first half of 2015 to approximately RMB1,050.5 million in the first half of 2016.

### GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit decreased by approximately RMB52.3 million, or 15.5%, from approximately RMB337.5 million in the first half of 2015 to approximately RMB285.2 million in the first half of 2016. Overall gross profit margin decreased from approximately 22.6% in the first half of 2015 to approximately 21.4% in the first half of 2016. The decrease in overall gross profit margin is mainly a result of the increase in sales proportion of the optical fibre cable series which has lower gross profit margin and the lowered selling price for feeder cable series.

### OTHER INCOME

Other income decreased by approximately RMB1.8 million, or 18.1%, from approximately RMB10.1 million in the first half of 2015 to approximately RMB8.3 million in the first half of 2016 primarily due to the decrease in interest income by approximately RMB1.7 million.

### OTHER GAINS AND LOSSES

Other losses incurred in the first half of 2016 amounting to approximately RMB88.7 million compared to other gains of approximately RMB0.2 million resulted in the first half of 2015. The other losses incurred for the first half of 2016 is mainly because of exchange losses of approximately RMB7.0 million as compared to exchange gain of approximately RMB0.1 million in the first half of 2015 and an allowance on bad and doubtful debts of approximately RMB81.7 million.

### SELLING AND DISTRIBUTION COSTS

Selling and distribution costs decreased by approximately RMB1.2 million, or 3.5%, from approximately RMB33.0 million in the first half of 2015 to approximately RMB31.8 million in the first half of 2016, mainly due to the decreased marketing and entertainment costs as a result of continuing cost curb program.



# MANAGEMENT DISCUSSION AND ANALYSIS

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately RMB1.3 million, or 4.4%, from approximately RMB28.4 million in the first half of 2015 to approximately RMB29.7 million in the first half of 2016 mainly due to the increase in salary for administrative staff.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by approximately RMB3.2 million, or 14.6%, from approximately RMB21.7 million in the first half of 2015 to approximately RMB24.9 million in the first half of 2016 primarily due to additional research and development costs incurred in order to broaden the varieties of the Group's product portfolio to tailor for the communications network requirement.

## FAIR VALUE CHANGE OF WARRANTS

The Company issued the Warrants conferring the holders thereof exercise rights to subscribe for up to 200,000,000 shares in the Company and re-measures them at fair value at each statement of financial position date with the change in fair value recorded in the profit or loss. The fair value change was not related to the Group's operating results. These Warrants are recognised in the consolidated statement of financial position at their fair value using binomial model. A gain on change in fair value of the Warrants amounted to approximately RMB7.4 million was recognised in the first half of 2016 whereas a loss on change in fair value of the Warrants of approximately RMB27.3 million was recognised in the first half of 2015.

## FINANCE COSTS

Finance costs decreased by approximately RMB10.2 million, or 25.2%, from approximately RMB40.6 million in the first half of 2015 to approximately RMB30.4 million in the first half of 2016 primarily due to the decrease in the interest rate of bank borrowings which were mainly denominated in Renminbi.

## TAXATION

Taxation charge decreased by approximately RMB33.8 million, or 84.4%, from approximately RMB40.0 million in the first half of 2015 to approximately RMB6.2 million in the first half of 2016. The Group's Enterprise Income Tax arises from its principal subsidiaries in the PRC, which enjoy a reduced Enterprise Income Tax rate of 15% as they are qualified as High and New Technology Enterprises. The decrease in taxation charge in the first half of 2016 is primarily attributable to decreased taxable profit of its principal subsidiaries in the PRC and deferred tax credit arising from the allowance for bad and doubtful debts.

## PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

As a combined result of the foregoing and profit attributable to non-controlling interests, profit for the period attributable to owners of the Company decreased by approximately RMB64.1 million, or 45.6%, from approximately RMB140.5 million in the first half of 2015 to approximately RMB76.4 million in the first half of 2016 and the corresponding net profit margin decreased from approximately 9.4% in the first half of 2015 to approximately 5.7% in the first half of 2016.



# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The operation of the Group is generally financed through a combination of shareholders' equity, internally generated cash flows and bank borrowings. In the long term, the operation of the Group will be funded by internally generated cash flow and, if necessary, additional equity financing and bank borrowings.

The following table summarises the cash flows for the six months ended 30 June 2016 and 2015:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash (used in) from operating activities	<b>(15,210)</b>	33,399
Net cash from (used in) investing activities	<b>90,240</b>	(154,898)
Net cash from financing activities	<b>26,405</b>	143,963

As at 30 June 2016, the Group had bank balances and cash and pledged bank deposits of approximately RMB760.5 million, with the majority of which were denominated in Renminbi. As at 30 June 2016, the Group had total bank borrowings of approximately RMB1,350.6 million which are repayable within one year. As at 30 June 2016, RMB537.0 million of the total bank borrowings were fixed rate borrowings and approximately RMB813.6 million were variable rate borrowings. As at 30 June 2016, bank borrowings of approximately RMB1,177.0 million were denominated in Renminbi, approximately RMB136.8 million were denominated in Hong Kong dollar and approximately RMB36.8 million were denominated in Euro.

The majority of the Group's transactions are denominated in Renminbi and, accordingly, the Group has not entered into any financial instrument for hedging foreign currency exposure. The Group currently does not have any foreign currencies hedging policy but will consider hedging its foreign currency exposure should the need arise.

## GEARING RATIO

Gearing ratio increased from approximately 19.9% as at 31 December 2015 to approximately 21.9% as at 30 June 2016. Such increase was primarily resulted from the additional bank borrowings raised to satisfy the additional working capital required to support the continued business growth. Gearing ratio is calculated by dividing total bank borrowings net of pledged bank deposits and bank balances and cash over total equity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS

As at 30 June 2016, the Group pledged certain bank deposits with carrying value of approximately RMB425.3 million (31 December 2015: approximately RMB541.4 million) to certain banks to secure credit facilities granted to the Group.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2016.

## EMPLOYEE INFORMATION

As at 30 June 2016, the Group had approximately 1,000 (31 December 2015: 1,000) employees. In order to enhance the morale and productivity of employees, employees are remunerated based on their performance, experience and prevailing industry practices. Compensation policies and packages of management staff and functional heads are being reviewed on a yearly basis. In addition to basic salary, performance related salary may also be awarded to employees based on internal performance evaluation. Moreover, the Company adopted a share option scheme in May 2014 which allows the Company to grant share options to, among other persons, its directors and employees in order to retain elite personnel to stay with the Group and to provide incentives for their contribution to the Group.

The Group also invests in continuing education and training programmes for management staff and other employees with a view to upgrading their skills and knowledge. These training courses comprise internal courses run by the management of the Group and external courses provided by professional trainers and range from technical training for production staff to financial and administrative trainings for management staff.

## **OTHER INFORMATION**

### **INTERIM DIVIDEND**

The Board has resolved to declare the payment of an interim dividend of HK1.2 cents per share for the first half of 2016 (first half of 2015: HK7 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, 15 September 2016. The interim dividend will be payable on or about Friday, 25 November 2016.

### **CLOSURE OF THE REGISTER OF MEMBERS**

To ascertain the entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, 13 September 2016 to Thursday, 15 September 2016, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the first half of 2016, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 12 September 2016.

### **CORPORATE GOVERNANCE**

The Company adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") as its own code of corporate governance. The Directors consider that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code during the six months ended 30 June 2016 and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2016.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 June 2016.

### **MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES**

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2016. In addition, the Group had no significant investments held during the six months ended 30 June 2016.

### **SHARE OPTION SCHEME**

Pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 27 May 2014, the Company adopted its first share option scheme ("Scheme") to allow the Group to grant options to eligible participants to entitle them to subscribe for new shares as incentives or rewards for their contribution to the Group.

Further details of the Scheme and the share options granted are disclosed in Note 20 of the Notes to the condensed consolidated financial statements.

## OTHER INFORMATION

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

As at 30 June 2016, 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) of the Company as recorded in the register required to be kept under section 352 of the SFO, or which otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

#### LONG POSITIONS

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

Name of Director	Nature of interest	Interest in ordinary shares	Interest in underlying shares	Total of shares and underlying shares	Approximate percentage of interest
Mr. Qian Lirong	Interest in controlled corporation	516,189,750 (Note a)	–	516,189,750	33.02%
	Interest in controlled corporation	250,000 (Note b)	–	250,000	0.01%
	Beneficial owner	6,582,000	–	6,582,000	0.42%
Mr. Jiang Wei	Beneficial owner	60,000	2,000,000 (Note c)	2,060,000	0.13%
Professor Jin Xiaofeng	Beneficial owner	–	400,000 (Note c)	400,000	0.03%
Mr. Poon Yick Pang Philip	Beneficial owner	–	400,000 (Note c)	400,000	0.03%
Mr. Ng Wai Hung	Beneficial owner	–	400,000 (Note c)	400,000	0.03%
Ms. Jia Lina	Beneficial owner	–	400,000 (Note c)	400,000	0.03%

Notes:

- (a) These shares are registered in the name of Trigiant Investments Limited ("Trigiant Investments"), a company owned as to 91.79% by Abraholme International Limited ("Abraholme"), which is in turn wholly owned by Mr. Qian Lirong. By virtue of the provisions in Part XV of the SFO, Mr. Qian Lirong is deemed to be interested in all the shares held by Trigiant Investments. Mr. Qian Lirong is a director of each of Trigiant Investments and Abraholme.
- (b) These shares are registered in the name of Abraholme.
- (c) These interests in underlying shares represent interests in options granted on 20 June 2014 under the Company's share option scheme conditionally adopted on 27 May 2014 which were accepted on 4 July 2014. Please refer to Note 20 of the Notes to the condensed consolidated financial statements for further details of the share option granted.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations of the Company.

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the register of substantial shareholders maintained by the Company under section 336 of the SFO recorded that the following persons/entities, other than the Directors or the chief executive of the Company, had an interest or a short position in the shares or underlying shares of the Company:

### LONG POSITIONS

Name of shareholder	Nature of interest	Total of shares and underlying shares	Approximate percentage of interest
Trigiant Investments	Beneficial owner	516,189,750	33.02%
Abraham Holme	Beneficial owner	250,000	0.01%
	Interest in controlled corporation	516,189,750 (Note a)	33.02%
Madam Qian Jundi	Interest of spouse	523,021,750 (Note b)	33.45%
Eternal Asia (HK) Limited	Beneficial owner	266,390,000 (Note c)	17.04%
Shenzhen Eternal Asia Investment Holding Limited ("Eternal Asia Investment")* 深圳市怡亞通投資控股有限公司	Interest in controlled corporation	266,390,000 (Note c)	17.04%
Shenzhen Eternal Asia Supply Chain Management Ltd. ("Eternal Asia")* 深圳市怡亞通供應鏈股份有限公司	Interest in controlled corporation	266,390,000 (Note c)	17.04%
Zhou Guohui	Interest in controlled corporation	266,390,000 (Note c)	17.04%
People's Bank of China	Interest in controlled corporation	261,000,000 (Note d)	16.69%
Easy Beauty Limited	Beneficial owner	200,000,000 (Note e)	12.79%
Zhu Xujun	Interest in controlled corporation	200,000,000 (Note e)	12.79%

\* For identification purpose only



## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS (continued)

#### LONG POSITIONS (continued)

Note:

- (a) These shares are registered in the name of Trigiant Investments, a company owned as to 91.79% by Abraholme, which is in turn wholly owned by Mr. Qian Lirong. By virtue of the provisions in the SFO, each of Mr. Qian Lirong and Abraholme is deemed to be interested in all the shares held by Trigiant Investments. Mr. Qian Lirong is a director of each of Trigiant Investments and Abraholme.
- (b) Madam Qian Jindi is the spouse of Mr. Qian Lirong and under the SFO, she is deemed to be interested in all the shares in which Mr. Qian Lirong is interested or deemed to be interested.
- (c) Based on the notices of disclosure of interests dated 11 May 2016 of Eternal Asia (HK) Limited, Eternal Asia, Eternal Asia Investment and Mr. Zhou Guohui each filed with the Stock Exchange, these interest are registered in the name of Eternal Asia (HK) Limited, a company wholly owned by Eternal Asia, which in turn is owned as to 36.57% by Eternal Asia Investment, which in turn is wholly owned by Mr. Zhou Guohui.
- (d) Based on the notice of disclosure of interests dated 31 March 2016 of the People's Bank of China filed with the Stock Exchange, these interests in shares are registered in the name of 中國進出口銀行, a company owned by the People's Bank of China as to 98%.
- (e) Based on the notices of disclosure of interests dated 24 September 2015 of Easy Beauty Limited and Mr. Zhu Xujun each filed with the Stock Exchange, these interests in shares are registered in the name of Easy Beauty Limited, a company owned as to 40.00% by Mr. Zhu Xujun.

### DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in Directors' information since the date of the 2015 annual report of the Company are set out below:

Mr. Ng Wai Hung, an independent non-executive Director, was appointed as an independent non-executive director of Xinyi Automobile Glass Hong Kong Enterprises Limited, which was listed on the Growth Enterprise Market of the Stock Exchange on 11 July 2016 (Stock Code: 8328) with effect on 25 June 2016.

Save as disclosed above, as at the date of this report, there were no substantial changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### AUDIT COMMITTEE

An audit committee of the Board ("Audit Committee") has been established with written terms of reference to, among other matters, review and supervise the financial reporting process, internal control system and risk management systems of the Group. The Audit Committee comprises all independent non-executive Directors, namely Mr. Poon Yick Pang Philip, Professor Jin Xiaofeng, Mr. Ng Wai Hung and Ms. Jia Lina. Mr. Poon Yick Pang Philip is the chairman of the Audit Committee. The interim results of the Group for the first half of 2016 have been reviewed by the Audit Committee.

The Company's independent auditor, Deloitte Touche Tohmatsu, has conducted a review of the interim financial information of the Group for the first half of 2016 in accordance with Hong Kong standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

By order of the Board  
**Qian Lirong**  
Chairman

Hong Kong, 24 August 2016