江南集團有限公司

# Jiangnan Group Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2017

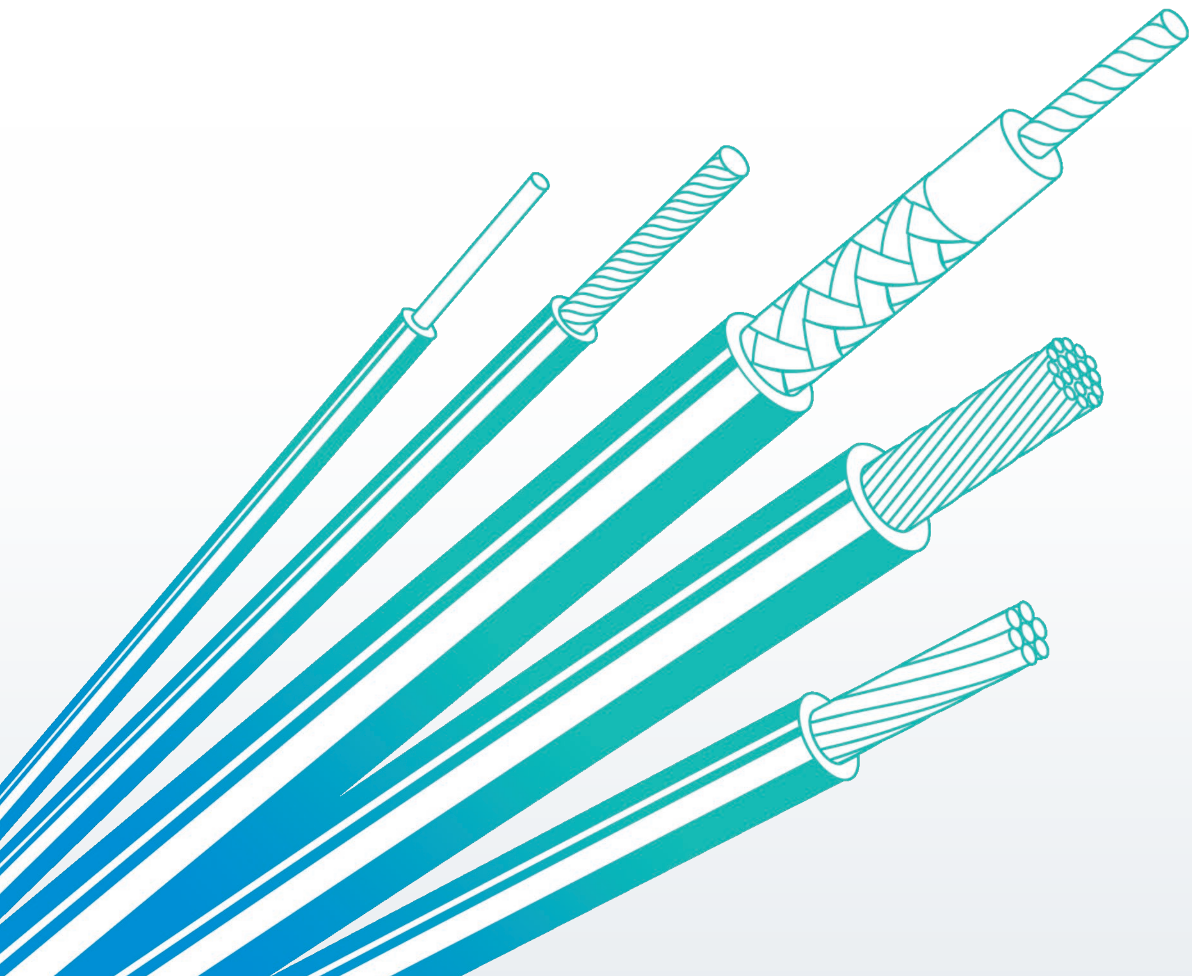
Stock Code: 1366

One of the Largest Suppliers of

**Electric Wires and Cables**

# GROUP'S PHILOSOPHY

As one of the best known large scale wires and cables manufacturers and marketing enterprises in China, adhering to honesty and hard working, Jiangnan Group aims to develop vigorously a better industry environment, to be among world-class brands and best international enterprises, to create social wealth, to realise staff value and to gain best return to the shareholders.



# CONTENTS

# MILESTONES

## 1997

**Wuxi Jiangnan** established to engage in the manufacturing and sale of wire and cable products

## 2004

XLPE power cables accredited as **China Famous Products**

## 2006

**Nuclear power plant cables** passed the inspection test

## 2008

Obtained **National Laboratory Accreditation Certificate**

## 2000

The Group's brand recognised as **Jiangsu Province Renowned Trademark**

## 2005

The Group's products accredited as **State Inspection-Free Products**

## 2007

Accredited as **State Key High Technology Enterprise**

Entered into five-year master supply agreements with **Eskom** (a state-owned company in South Africa)

## 2009

Obtained combined certifications including **ISO9001, ISO14001, OHSAS 18001**

# MILESTONES

## 2010

Recognised as **China Well-known Trademark by SAIC**

Commenced production of **high voltage cables** with rated voltage of 110kV

## 2012

**Listed** on the Main Board of the HKEx

Invested in **Aluminum-alloy** and **double capacity wire**

Established production lines in South Africa

## 2014

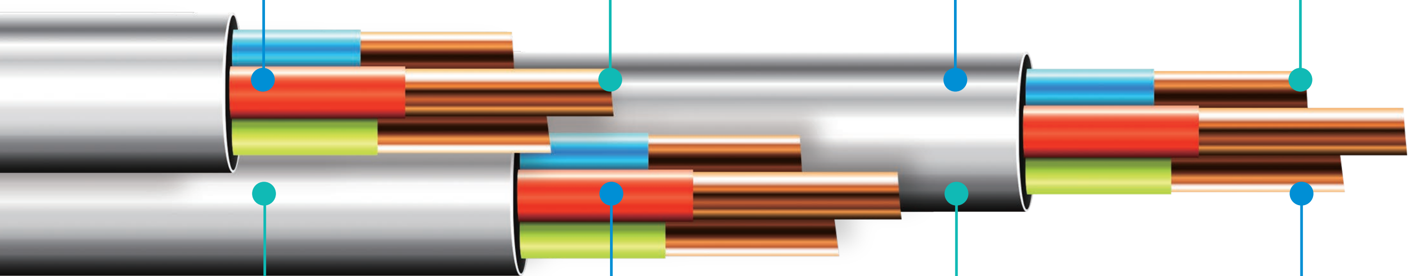
Achieved the **highest brand evaluation** in respect of cable enterprise under "2014 China Brand Evaluation"

Successfully renewed the 5 years contract with **Eskom**

## 2016

Added a **new extra-high voltage power cable production line**

Awarded as one of the Top 500 Manufacturing Enterprises in China



## 2011

Commenced commercial production of **high and extra-high voltage cables** with rated voltage of **220-500kV**

## 2013

Acquired 100% interest of a **special power cable** manufacturer in China

Commenced **commercial production** of wires & cables in **South Africa**

## 2015

Acquired 100% interest of two **power cable** manufacturers in China

Established a strategic cooperation with **China Gezhouba Group International Engineering** Co., Ltd.

## 2017

Awarded "**AEO Customs Advanced Certification**"

Awarded as the first batch of state-level "**Green Factories**"

Acquired 120,000 square metres of factory land

# 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, “Group”) is one of the largest manufacturers of wires and cables for power transmission, distribution systems and electrical equipment in the People’s Republic of China (“China” or “the PRC”). The Group’s products are widely used in the power industry (including grid, power plant and renewable energy) and general industries (including metals and mining, oil and gas, transportation, shipbuilding and construction).**

The Group offers over 10,000 products under four main categories, namely power cables, wires and cables for electrical equipment, bare wires and special cables. The Group’s products carry different characteristics to meet customers’ needs, including low smoke and 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.

The Group’s products are primarily marketed and sold under its “”, “”, “” and “” brands, among which the “” brand was recognised 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. The Group’s products were also accredited as “Customer Satisfaction Products” by the China Association for Quality and National Committee for Customers in December 2007. In 2017, the Group obtained 海關高級認證AEO (“AEO Customs Advanced Certification”)* from the Nanjing Customs Department of the PRC (中華人民共和國南京海關) and the Yixing Mayer’s Quality Award, and was awarded as one of the 10 Most Competitive Cable Industry Players in China, the top 19 Global Power Cable Manufacturers, and the top 500 Chinese Manufacturing Enterprises.

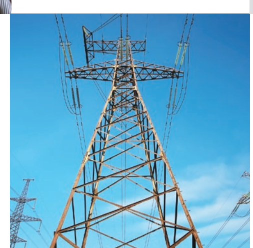
* *For identification purpose only*

# CORPORATE PROFILE

The Group has strong research and development capabilities. The Group has established a research workstation and a state post-doctoral research workstation jointly with the academician of the China Academy of Engineering and China Academy of Science. The Group has also participated in the drafting and formulating of 53 national industry standards for the manufacturing processes of power cables, wires and cables for electrical equipment and bare wires. One of these standards was the standard for the rated voltage 0.6/1kV rubber insulation and sheathing wind power with twist-resistant flexible cables. This was the first standard for wind power cables in China. The Group has 394 patents that are material to the Group's business in the PRC. Two of the most significant subsidiaries of Jiangnan Group in China, namely, Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) ("Wuxi Jiangnan Cable") and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) ("Zhongmei Cable"), have been endorsed as High and New Technology Enterprises again by the Yixing Provincial Commission of Science and Technology and are entitled to a reduced PRC income tax rate of 15% until the next renewal of their endorsements in 2018 and 2020 respectively. The Group's high-tech products include extra-high voltage ("EHV") cables, ultra-high voltage ("UHV") aluminum alloy bare wires, photovoltaic solar cables, cables used for wind power, optical fiber composite cables, aluminum-alloy cables, pulse width modulated inverter power supply cables for ships, flexible fire resistant cables and 27.5kV power cables for high-speed railways.

With its high quality products, renowned brands and good reputation, strong research and development capabilities as well as manufacturing and production capabilities, the Group has maintained a solid and wide customer base including certain industry leaders in their respective industries. The Group has supplied products to many prominent infrastructure projects in China, such as those in relation to the Gezhouba hydro-electric power, the West-to-East Gas Pipelines, 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 China Zun, the Beijing Capital International Airport, the Nanjing Lukou International Airport, the Shenzhen International Airport, the Power Transmission from West to East Project (the first ±800kV UHV direct current ("DC") transmission system from Yunnan to Guangdong), the ±800kV UHV DC transmission line from Xiluodu to Jinhua, the ±1100kV UHV DC transmission project from Changji to Guquan, 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, the Ningtian Intercity Line Phase 1, the high speed railways from Fuzhou to Xiamen, and the 2014 Youth Olympic in Nanjing. The Group is capable of producing cables for use in extremely low temperature environments in the polar regions, which have been recognised as a Dedicated Product for China North & South Pole Research by the China Polar Region Research Center.

The Group's products have been exported to more than 100 countries. In particular, the Group is a qualified supplier of Eskom Holding Limited ("Eskom"), which is a state-owned power generation and transmission company in South Africa, a fast growing market for power cables. The Group began to supply its products to Eskom in 2007 and the Group is a South Africa Bureau of Standard (SABS) certified manufacturer of wires and cables in the PRC that is allowed to supply power wire and cable products to South Africa. The Group also exports its products to reputable customers overseas, such as Power Works Pte Limited in Singapore, National Power Transmission Corporation in Vietnam and National Grid in the UK. In January 2017, Wuxi Jiangnan Cable was awarded 海關高級認証AEO ("AEO Customs Advanced Certification")*, which enabled the Group to leverage on the convenient conditions of AEO's customs clearance around the world to develop its global business.



* For identification purpose only

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Chu Hui *(Chairman, Chief Executive Officer and Chairman of the Corporate Governance Committee)*
Xia Yafang *(Executive Vice-president)*
Jiang Yongwei *(Vice-president)*
Hao Minghui

## INDEPENDENT NON-EXECUTIVE DIRECTORS

He Zhisong *(Chairman of the Nomination Committee and the Remuneration Committee)*
Yang Rongkai
Poon Yick Pang Philip *(Chairman of the Audit Committee)*

## AUTHORISED REPRESENTATIVES

Chan Man Kiu
Xia Yafang

## COMPANY SECRETARY

Chan Man Kiu, *CPA, FCCA*

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers 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 Ltd.
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 22, 15/F, Leighton Centre, 77 Leighton Road
Causeway Bay, Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN CHINA

53 Xinguandonglu, Guanlin Town, Yixing City
Jiangsu Province, China

## INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants, Hong Kong

## LEGAL ADVISORS

Conyers Dill & Pearman (Cayman) Limited (Cayman Islands laws)
Leung & Lau (Hong Kong laws)
AllBright Law Offices (PRC laws)

## STOCK CODE

1366

## WEBSITE

www.jiangnangroup.com

## CORPORATE CALENDAR

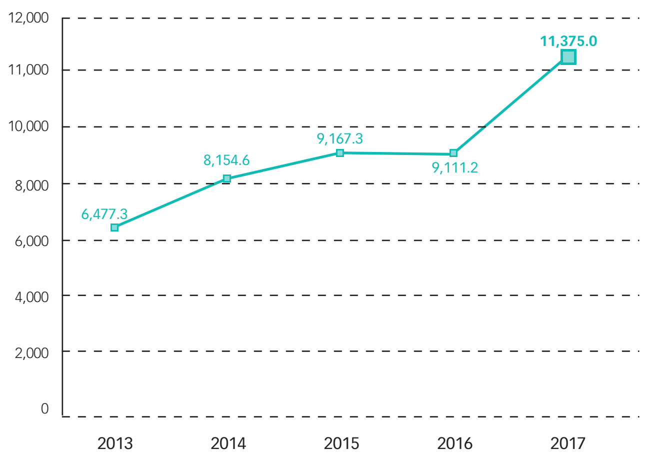
| | |
|---|---|
| Annual General Meeting | 29 May 2018 |

# FINANCIAL HIGHLIGHTS

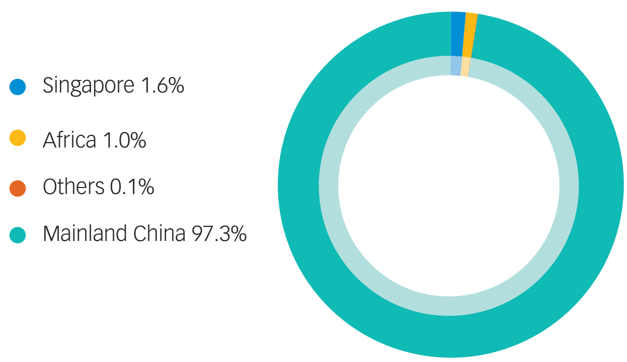
| | Year ended 31 December 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **RESULTS (RMB'000)** | | | | | |
| Group turnover | 6,477,302 | 8,154,555 | 9,167,273 | 9,111,232 | **11,374,969** |
| Profit for the year attributable to owners of the Company | 503,523 | 626,016 | 703,261 | 531,322 | **103,912** |
| **ASSETS AND LIABILITIES (RMB'000)** | | | | | |
| Non-current assets | 896,492 | 869,518 | 1,234,175 | 1,261,060 | **1,373,765** |
| Current assets | 6,660,794 | 7,847,989 | 10,885,090 | 11,204,561 | **12,060,102** |
| Current liabilities | 5,203,378 | 5,414,785 | 7,146,023 | 7,096,600 | **8,072,819** |
| Non-current liabilities | 68,252 | 72,856 | 77,317 | 71,929 | **70,041** |
| **FINANCIAL RATIOS** | | | | | |
| Net margin (%) | 7.8% | 7.7% | 7.7% | 5.8% | **0.9%** |
| Current ratio (times) | 1.28 | 1.45 | 1.52 | 1.58 | **1.49** |
| **FINANCIAL INFORMATION PER SHARE** | | | | | |
| Earnings (HK cents) | 20.4 | 24.8 | 22.4 | 15.2 | **3.07** |
| Net assets (HK$) | 0.93 | 1.20 | 1.43 | 1.51 | **1.57** |

## TOTAL REVENUE

(RMB million)



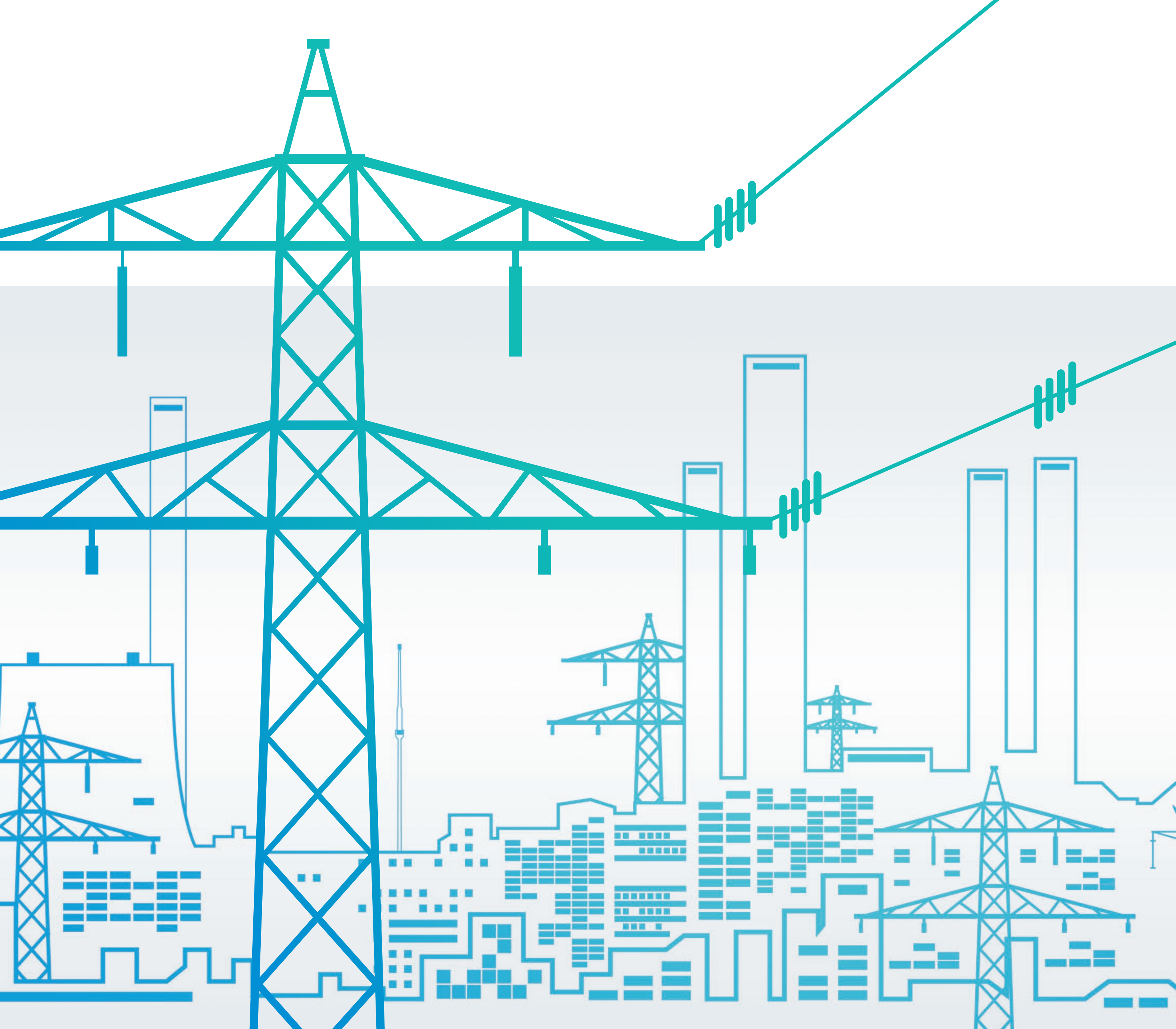

## GEOGRAPHICAL COMBINATION



# CHAIRMAN'S STATEMENT



Strengthening the Group's Leading Position as a Manufacturer-Cum-Supplier of Composite Wires and Cables



# CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to present the annual results of Jiangnan Group Limited ("Company", together with its subsidiaries, "Jiangnan" or "Group") for the year ended 31 December 2017 ("Year") to our shareholders.

## DOMESTIC AND GLOBAL ECONOMIC CONDITIONS IN 2017

In 2017, both the domestic and the global economic conditions in general were stronger than expected. On the international side, despite the refugee crisis in Europe, the Qatar diplomatic crisis in the Middle East, and the "America First" policy which to a certain extent increased the uncertainties over the global economy, the global economy had entered into a relatively strong recovery track. The fast growing momentum in the major economies was driven by cyclical factors, a stronger organic growth momentum and an improved financial environment. On the domestic side, the driver of economic development in the PRC has gradually shifted from labour-intensive industries to middle-end and high-end industries as a result of the policies and initiatives implemented by the Chinese government, including the "Supply-side Reform", the "Belt and Road" Initiative, and the "Made in China 2025" Program. According to the data released by the National Bureau of Statistics, as compared to RMB 70 trillion recorded in 2016, China's gross domestic product ("GDP") exceeded RMB 82 trillion in 2017, thus breaking through the threshold of RMB 80 trillion for the first time. Based on comparable price, the GDP grew by 6.9% year on year in 2017. It's the first time since 2010 that China's GDP growth rate has accelerated from the previous year. The national economy has stabilised and shown such good signs, as its economic vitality, momentum and potential have continued to manifest, while its stability, coordination and sustainability have also strengthened significantly. Benefiting from such favourable economic conditions, the growth of the Group's sales and turnover remained relatively fast in 2017.

## MARKET OBSERVATION AND COUNTERMEASURES AGAINST MARKET MOVEMENTS

The incident in March 2017 that involved government investigations on the "problem cables" produced by Shaanxi Aokai Cable Co., Ltd. which were used in the Xi'an Metro Line 3 project of Shaanxi Province ("Aokai Incident") affected the entire cable industry in China significantly. The General Administration of Quality Supervision, Inspection and Quarantine and other regulatory authorities vigorously carried out unprecedented inspections which resulted in an industrial reshuffle in China and gave rise to opportunities. Due to the labour strikes in various mines in Chile and Peru, as well as at Freeport in Indonesia, coupled with continued overcapacity reduction and the import ban on "foreign garbage" in China, the global market faced a short supply of copper. In view of the above and the market's repeated anticipation that the Federal Reserve would raise the interest rate, the copper price has increased. In addition, the stringent initiatives introduced by the Chinese government to tackle the environmental pollution have resulted in soaring prices of copper, PVC, and other raw and auxilliary materials used in the cable industry amid a significant decline in the supply of these materials in the cable industry, weighing on the operating capital of companies in the cable industry. Against these various unfavourable factors, the Group promptly realigned its development strategies, continued improving its product quality and optimised its "safety inventory level", thereby minimising the exposure to challenges brought by significant fluctuations in the copper price. During the Year, the Group recorded a turnover of approximately RMB 11.37 billion, representing a new high as well as a year-on-year increase of 24.8% as compared to approximately RMB 9.11 billion for the year ended 31 December 2016. However, the profit attributable to the owners of the Company for the year under review declined to approximately RMB103.9 million from approximately RMB531.3 million for the year ended 31 December 2016 due to the flood in 2016, the Aokai Incident which had led to the increasingly strict market requirements and regulations, and the rising costs of raw materials.

# CHAIRMAN'S STATEMENT

In October 2017, according to the "Measures for the Administration of Tenders and Invitations to Bid in Government Procurement of Goods and Services" ("No. 87 Order") issued by the Ministry of Finance of the PRC, in case of any quotation in bids which may affect product quality or result in the failure to perform in good faith, provision of explanations or evidence justifying the rationale behind the quotation is required. These measures definitely pose restraints on successful bids with a minimum quotation, and hopefully improve the industrial phenomena that "industry peers report losses or slim profits, while the owners are put at a disadvantage". In addition, the Aokai Incident has catalysed industrial consolidation. Therefore, orders in the market flew to the medium and large enterprises that have solid comprehensive strength and comparatively ample capital, thus creating significantly favourable conditions for the development of these medium and large enterprises. In light of the current development environment and business conditions, the Group is positive and anticipates that its sales and turnover in 2018 will continue to enjoy fairly good growth potential in addition to benefiting from industrial consolidation and the revocation of the minimum quotation policy under No. 87 Order.

## SELF-ENHANCEMENT IN LINE WITH THE MARKET TREND

During 2017, competition in the industry remained keen. The Group had adjusted its operational strategies in order to seize the opportunities arising from power distribution network reconstruction, city smart grid construction and transformation and upgrade of rural power grid investment projects. The Group focused on strengthening its cooperation with high-quality state-owned enterprises, such as State Grid Corporation of China ("SGCC"), China Southern Power Grid Co., Ltd ("CSG") and five power generation groups of China, and targeted key business exploration in the county-level power companies, the combination of which transformed the untapped market space into a sales growth driver of the Company. In 2017, the Group had successfully secured the bid for the ultra-high-voltage direct current transmission project for a transmission voltage of ±1,100kV linking Cangji to Guquan, which is an UHV power transmission project with the highest voltage, the largest transmission capacity, the longest transmission distance and the most advanced technology in the world. This showcases the solid comprehensive strength and market competitiveness of the Group.

In line with the Chinese government's "Belt and Road" Initiative, the Group continued to expedite its penetration into the overseas market. Previously, a subsidiary of the Company entered into a strategic cooperation agreement with renowned state-owned enterprises, including China Gezhouba Group International Engineering Co., Ltd. (中國葛洲壩集團國際工程有限公司) ("Gezhouba Engineering"), which allowed the Group to enter into the international arena together with these state-owned enterprises. The Group's previous efforts eventually paid off as its expansion into the overseas markets started to bear fruits. In 2017, the Group secured a bid for a project worth exceeding RMB 100 million in Egypt, which further enhanced the brand awareness and the international influence of the Group.

In addition to closely following the major lead in the market, the Group continued to reinforce its abilities in innovation, green manufacture and intelligent manufacture, as well as the in-depth integration of informatisation and industrialisation, which in turn enhanced its development efficiency and lowered its operating costs. A subsidiary of the Company undertook the internet upgrade project in Jiangsu Province, and its workshop of extra-high-voltage alternate and direct current cables for intelligent power grids had been recognised as Jiangsu Intelligent Demo Workshop following an on-site audit. In 2017, in connection with the integration of informatisation and industrialisation, a subsidiary of the Company was recognised as a pilot enterprise that implements the relevant standards by the Ministry of Industry and Information Technology, a demonstration enterprise of Jiangsu Province in innovative management, and a demonstration enterprise of Jiangsu Province in cyber and information security. To comply with the national green development policy, the Group proactively adhered to the path towards green development, energy conservation and environmental protection, thus being accredited as one of the first state-level "Green Factories". By following the practices required by the integration of informatisation and industrialisation, as well as the green and intelligent manufacture, the Group has improved its labour and production efficiency while reducing its costs and lowering its energy consumption. As investments in intelligent equipment increased and the development of informatisation accelerated, the Group has enhanced its overall modern management level.

# CHAIRMAN'S STATEMENT

To further improve its production capacity and product supply, in 2017, the Group acquired the land use right and building ownership from an enterprise in Yixing city, Jiangsu Province with respect to an area of over 120,000 square metres. Following this acquisition, the Group adjusted its original production layout by relocating its current fifth and sixth workshops to the workshops in the new plant premises and reserving the existing fifth and sixth workshops for the production of flexible fire proof cables. The Group will introduce advanced production equipment in the new plant premises that is mainly used for the manufacture of 6kV or below wires and cables with enhanced reliability intended to be used in intelligent power distribution and consumption. The new plant premises are expected to commence production by the second quarter of 2018. According to the Group's current equipment deployment plan, the workshops in the new premises will reach a production value of approximately RMB3 billion a year. As a result, the Group can boost its production capacity, while creating an improved production system that is professional, sizeable and intelligent.

While committing itself to improving its operational efficiency and production capacity, the Group scaled up its investments in scientific research, optimised its process flows, and gradually enhanced product quality during 2017. More than 20 new products were developed along with 10 high-tech products. Meanwhile, the Group achieved a milestone in the development of extra-high-voltage smooth aluminum sheathed power cables in a joint project with International Power Grid Research Institute (國際大電網研究院). In addition, the Group has also developed various products which will deliver outstanding comprehensive performance, including 3100V sub-cables that connect to ship engines and 10kV concentric direct current cables for ships. These result in honours and accomplishment which not only recognise the development achievement of the Group but also strengthen its capability to secure bids and tenders in the future.

In 2017, the Group continued to be recognised as one of the Top 500 Manufacturing Enterprises in China, Top 10 Competitive Wire and Cable Enterprises in China, Enterprises with Quality Integrity in China and was accredited as one of the first batch of state-level "Green Factories".

## OUTLOOK AND PROSPECTS

In 2017, the cable industry in China was adversely affected by the Aokai Incident which was a one-off incident. It is expected that 2018 will be a year of turnaround for the cable industry, leaving behind the adverse financial impacts resulted from the Aokai Incident. It is also expected that the Aokai Incident would be a catalyst to speed up the pace of consolidation for the cable industry which would benefit the Group in the long run.

In 2018, the Group will face significant development opportunities, as investments in infrastructure and heavyweight equipment will continue to grow in China under the "13th Five-Year Plan" and the "Made in China 2025" Program. Energy conservation and environmental protection will be the focus of economic developments in the PRC, which will lead to the extensive use of ultra-high-voltage conductors that the Group is capable to produce, which are mainly characterised by efficient performance with lower energy loss in power transmission.

In order to meet the continuous growth in demand for electricity in China, especially in the urban areas, it is inevitable that high-voltage power cables and extra-high-voltage power cables with such advantages, including enormous capacity, great reliability, and close to zero maintenance will gradually be used to replace lower-rated voltage power cables in the power distribution networks.

# CHAIRMAN'S STATEMENT

During the "13th Five-Year Plan" period, the total investments to be made in the construction of power distribution networks in the PRC are expected to reach more than RMB 1.7 trillion. According to the "13th Five-Year Plan", by 2020, the high-voltage power distribution lines will reach a total length of 1.01 million kilometers, while the medium-voltage power distribution lines will reach a total length of 4.04 million kilometers. The "13th Five-Year Plan" also formulates the reconstruction of rural power distribution networks with a total investment amount exceeding RMB700 billion. The planned investments in the power grids have been evidenced by the total amount of investments made by SGCC in grid networks in 2016 and 2017 of RMB496.4 billion and RMB485.4 billion respectively. The planned investments of SGCC in grid networks in the PRC in 2018 will be RMB498.9 billion, representing an increase of approximately 2.8% as compared with those in 2017.

During the "13th Five-Year Plan" period, the total investments in transportation in the PRC will reach RMB 15 trillion, of which RMB3.5 trillion will be fixed investments in railways, RMB7.8 trillion in highways, RMB650 billion in civil aviation, and RMB500 billion in water transportation. By the end of the "13th Five-Year Plan" period, there will be more than 3,000 km of urban rail lines and 23,000 km of new railway lines put into operation. It is expected the investments in urban rail lines will reach RMB1.7 trillion to RMB2 trillion and the investments in railways will be not less than RMB3.8 trillion by the end of the "13th Five-Year Plan" period. All of the above will trigger an increase in the procurement of various cable products in China, which will benefit the development of the Group.

In 2018, China overseas exhibitions will experience a period of fast growth. These exhibitions will increasingly drive economic growth in the PRC. According to the report delivered by the General Party Secretary Xi Jinping during the 19th National Congress of the Communist Party of China, the Chinese government shall closely focus on developing an open economy and expanding foreign trade. With the "Belt and Road" Initiative as a priority, the Chinese government shall develop new models and forms of trade, while turning China into a strong trade economy. The "Belt and Road" Initiative will bring a historic opportunity to the transformation of the cable industry, as the production capacities of cable products and their output volumes will be boosted, while international cooperation between enterprises will be increasingly encouraged. In this regard, the Group will seize the opportunities arising from both the construction, reformation and upgrade of national grids, and the growing infrastructure projects to improve the Group's turnover and market share by enriching the Group's product mix and enhancing the quality of its products. At the same time, the Group will leverage on the experience of its business partners to strengthen its business development and cooperation in engineering, procurement and construction ("EPC") projects, further upstream and downstream business expansions and international market development, and seek a new wave of fast development.

The Group believes that new growth drivers are emerging from the new normal of economy in China. The Group will seize the growth opportunities brought by the new emerging strategic industries in China. The Group's advantages on technology, production scale and management team capability to carry out execution quickly and exercise countermeasures have well equipped itself to cope with any business growth opportunity arising from the upcoming power distribution network upgrade and the implementation of related projects in China. The Group is looking forward to achieving sustainable and stable business growth and to creating more fruitful returns for its shareholders and stakeholders.

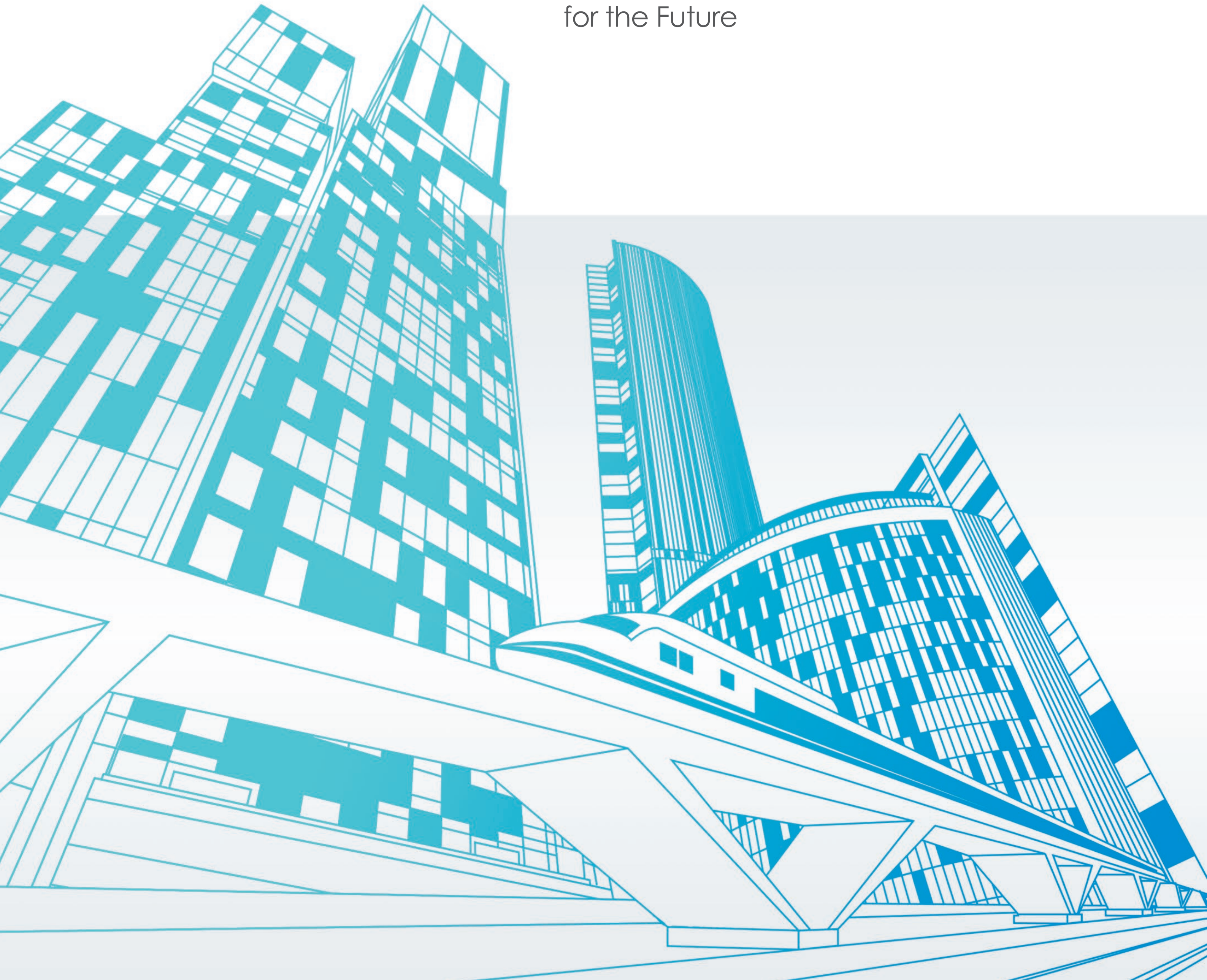
## ACKNOWLEDGEMENT

On behalf of the board ("Board") of directors of the Company, I would like to express my sincere gratitude to the shareholders and investors of the Company, business partners, customers and suppliers of the Group for their continuing support and to thank the Group's management team and all employees for their dedication and contribution in the past.

**Chu Hui**
*Chairman and Chief Executive Officer*
Hong Kong, 29 March 2018

# MANAGEMENT DISCUSSION & ANALYSIS

Steady Growth in the Wire and Cable Industry in the Past and for the Future



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB11,375.0 million, representing an increase of approximately 24.8% as compared with that for the year ended 31 December 2016, and profit attributable to owners of the Company for the year under review of approximately RMB103.9 million, representing a decrease of approximately 80.4% as compared with that for the year ended 31 December 2016. The decrease in the profit attributable to owners of the Company for the year under review was mainly due to (i) the increase in cost of goods sold from approximately RMB7,753.2 million for the year ended 31 December 2016 to approximately RMB10,051.1 million for the year under review which, in turn, lowered the gross profit for the year under review to approximately RMB1,323.9 million (approximately RMB1,358.0 million for the year ended 31 December 2016); and (ii) write-down of inventories of approximately RMB382.2 million as a result of the changes in market requirements of certain affected inventories identified by the Group which were disassembled during the year under review (such write-down was absent during the year ended 31 December 2016). Such decrease was also attributable to (1) the decrease in the gross profit margin of power cables from approximately 15.5% for the year ended 31 December 2016 to approximately 11.2% for the year under review as a result of (a) more orders of low-rated voltage power cables which carried a lower gross profit margin being shifted by customers from smaller manufacturers to the Group due to the changes in market requirements; (b) the increase in the consumption of raw materials as a result of changes in market requirements during the year under review; and (c) the discounts offered to customers during the year under review on certain products, the quality of which was slightly affected by the flood in 2016; and (2) the increase in the aggregate of the selling and distribution costs, administrative expenses and finance costs from approximately RMB675.3 million for the year ended 31 December 2016 to approximately RMB770.9 million for the year under review. The Group's gross profit margin for the year ended 31 December 2017 decreased to approximately 11.6% (year ended 31 December 2016: 14.9%). Basic earnings per share for the year under review was RMB2.57 cents (year ended 31 December 2016: RMB13.15 cents), representing a decrease of approximately 80.5%.

## MARKET REVIEW

The year of 2017 was meant to be an extraordinary year with frequent black swan events, including the refugee crisis in Europe, the Qatar diplomatic crisis in the Middle East, and the "America First" policy in the United States of America. These events not only added uncertainties to the global political and financial fields, but also negatively affected the macroeconomic environment. On the domestic side, the drivers of the economy in the PRC have shifted from labour-intensive industries to middle-end and high-end industries as a result of policies and initiatives implemented by the Chinese government, including the "Supply-side Reform", the "Belt and Road" Initiative, and the "Made in China 2025" Program. The national economy has stabilised and shown such good signs, as its economic vitality, momentum and potential have continued to manifest, while its stability, coordination and sustainability have strengthened significantly. The average price of copper on the London Metal Exchange Limited increased by approximately 26.7% from approximately US$4,862.6 per tonne in 2016 to approximately US$6,162.8 per tonne in 2017. The average price of aluminum increased by approximately 9.8% from approximately US$1,555.2 per tonne in 2016 to approximately US$1,708.1 per tonne in 2017. As the Group prices its products on a cost-plus basis, the increase in raw material prices has driven up the Group's product prices, resulting in an increase in revenue for the year under review as compared with that for the year ended 31 December 2016.

## BUSINESS REVIEW

According to the data released by the National Bureau of Statistics, China's gross domestic product grew by only 6.9% year-on-year, which has increased slightly as compared with that in the year ended 31 December 2016. During 2017, while the macroeconomic environment recovered and prices of raw and auxiliary materials (in particular copper and aluminum) picked up, a catastrophic flood disaster which struck China in 2016 with damaging effects being carried over to 2017, and the Aokai Incident, had resulted in reforms being carried out in the cable industry in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

During 2017, market requirements changed after the Aokai Incident which led to additional costs of production being incurred by the Group, including the increase in material costs and direct labour costs. The increase in the Group's cost of goods sold together with the discounts offered to customers on certain products, the quality of which was slightly affected by the flood in 2016, have reduced the gross profit margin of the Group significantly. As a result of the changes in market requirements, a significant write-down of inventories amounting to approximately RMB382.2 million was incurred by the Group during the year under review. All these unfavourable factors have exposed enterprises in the cable industry in China to unprecedented risks and challenges, which have also adversely affected the financial performance of the Group and its peers. Survival of the fittest has become a new trend in the wires and cables manufacturing industry in China. Amidst such unsettling operating environment, the Group had sought for stable development both internally and externally. Apart from being able to produce a wide range of products, the Group had acquired a piece of land and a manufacturing plant during the year under review to increase its production capacity. Externally, the Group targeted to strengthen its cooperation with quality state-owned enterprises, such as SGCC, CSG and the five power generation groups of China to minimise its credit risk and to ensure sustainable growth of its business. In addition, the Group had also been actively positioning and developing new business in its industry chain, aiming to diversify the Group's service and product offering and to enhance the Group's gross profit.

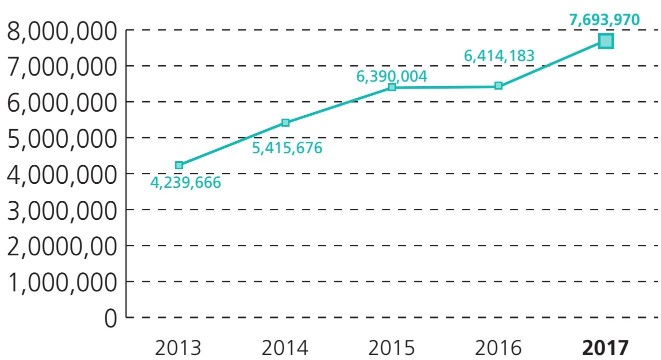
## TURNOVER AND GROSS PROFIT MARGIN OF THE PRODUCTS

| | Turnover | | | Gross Profit Margin | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | % change | **2017** | 2016 | change |
| | ***RMB'000*** | *RMB'000* | | | | |
| Power cables | **7,693,970** | 6,414,183 | 20.0% | **11.2%** | 15.5% | –4.3% |
| Wires and cables for electrical equipment | **2,256,538** | 1,697,625 | 32.9% | **9.8%** | 11.8% | –2.0% |
| Bare wires | **640,005** | 511,190 | 25.2% | **9.7%** | 10.4% | –0.7% |
| Special cables | **784,456** | 488,234 | 60.7% | **22.4%** | 22.7% | –0.3% |
| TOTAL | **11,374,969** | 9,111,232 | 24.8% | **11.6%** | 14.9% | –3.3% |

## TURNOVER

### POWER CABLE PRODUCTS — 67.7% OF TOTAL TURNOVER

(RMB'000)

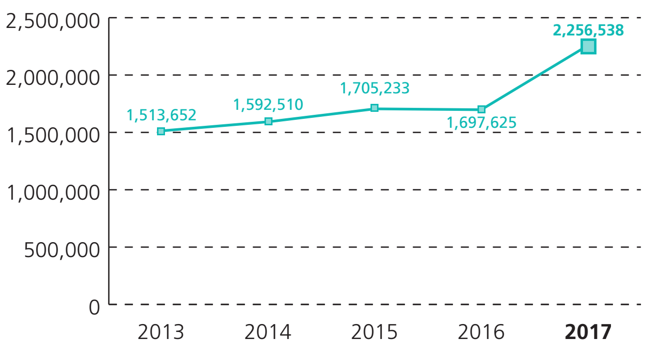


Driven by the increase in copper price, the changes in market requirements due to the Aokai Incident which were in favour of larger manufacturers that were able to produce quality products, and the sizable investments in power grid construction made by SGCC of approximately RMB485.4 billion in 2017, the growth in the Group's power cable products for the year under review was strong. Sales volume of the Group's power cable products for the year ended 31 December 2017 increased significantly by approximately 15.2% to approximately 243,374 km (year ended 31 December 2016: 211,192 km) and the turnover of power cables accounted for approximately 67.7% of the total turnover of the Group for the year under review. Power cables are priced on a cost-plus basis by the Group. Notwithstanding that copper price has increased significantly during the year under review, the average product price for the year under review only increased by approximately 4.1% as compared to that in 2016. It was because (i) more orders of low-rated voltage power cables which carried lower selling prices and gross profit margin were shifted by customers from smaller manufacturers to the Group as a result of the changes in market requirements; and (ii) discounts were offered to customers during the year under review on certain products, the quality of which was slightly affected by the flood in 2016.

For the year ended 31 December 2017, turnover from power cable products amounted to approximately RMB7,694.0 million, representing an increase of approximately 20.0% over that in 2016 (year ended 31 December 2016: RMB6,414.2 million). Gross profit for the year under review decreased to approximately RMB864.8 million (year ended 31 December 2016: RMB992.9 million), whereas gross profit margin decreased to approximately 11.2% (year ended 31 December 2016: 15.5%) due to the changes in market requirements which led to (i) an increase in the consumption of raw materials during the production process, and hence increased the cost of goods sold; and (ii) an increase in the sales of low-rated voltage power cables which carried a lower gross profit margin due to orders shifted by customers from smaller manufacturers to the Group.

## WIRES AND CABLES FOR ELECTRICAL EQUIPMENT PRODUCTS — 19.8% OF TOTAL TURNOVER

(RMB'000)

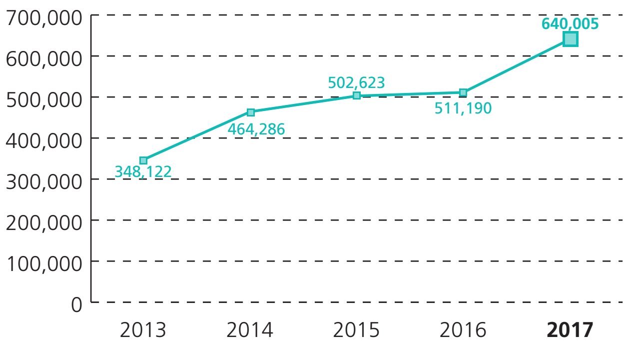



For the year ended 31 December 2017, turnover from wires and cables for electrical equipment increased significantly by approximately 32.9% to approximately RMB2,256.5 million (year ended 31 December 2016: RMB1,697.6 million). Sales volume of wires and cables for electrical equipment increased by approximately 13.7% from approximately 1,050,998 km for the year ended 31 December 2016 to approximately 1,194,835 km for the year ended 31 December 2017. The average selling price of wires and cables for electrical equipment products increased by approximately 17.0% from approximately RMB1,615 per km for the year ended 31 December 2016 to approximately RMB1,889 per km for the year ended 31 December 2017, mainly due to the increase in the average copper price in 2017. Gross profit for the year under review increased to approximately RMB221.0 million (year ended 31 December 2016: RMB201.1 million), whereas gross profit margin decreased to approximately 9.8% (year ended 31 December 2016: 11.8%).

# MANAGEMENT DISCUSSION AND ANALYSIS

## BARE WIRE PRODUCTS — 5.6% OF TOTAL TURNOVER

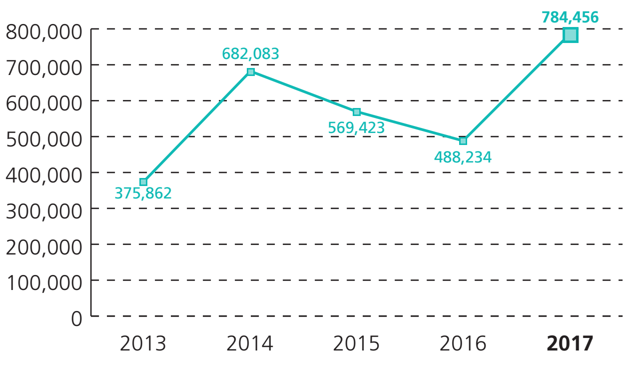
(RMB'000)




For the year ended 31 December 2017, turnover of bare wires increased significantly by approximately 25.2% to approximately RMB640.0 million (year ended 31 December 2016: RMB511.2 million). Sales volume of bare wires increased significantly by approximately 32.3% from approximately 39,987 tonnes for the year ended 31 December 2016 to approximately 52,897 tonnes for the year ended 31 December 2017. Due to the increase in sales as a result of orders being shifted by customers from smaller manufacturers to the Group for producing lower rated voltage bare wires which carried lower selling prices, the average price of bare wire products decreased by approximately 5.4% to approximately RMB12,099.1 per tonne during the year under review (year ended 31 December 2016: RMB12,783.9 per tonne). During the year under review, gross profit increased by approximately 17.1% to approximately RMB62.4 million (year ended 31 December 2016: RMB53.3 million), whereas gross profit margin decreased by approximately 0.7% to approximately 9.7% (year ended 31 December 2016: 10.4%).

## SPECIAL CABLE PRODUCTS — 6.9% OF TOTAL TURNOVER

(RMB'000)



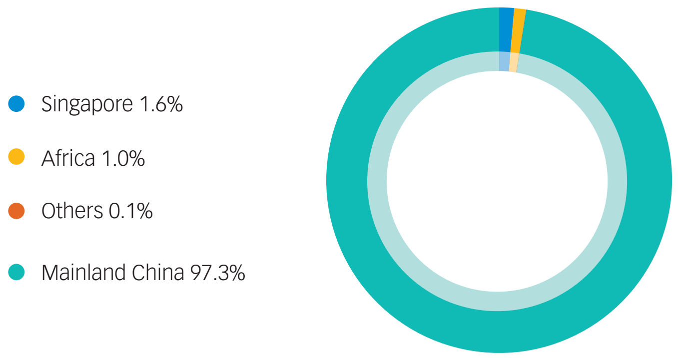

Turnover of special cables in the year under review amounted to approximately RMB784.5 million, representing an increase of approximately 60.7% (year ended 31 December 2016: RMB488.2 million). However, the sales volume of special cables for the year ended 31 December 2017 decreased by approximately 19.6% to approximately 62,500 km (year ended 31 December 2016: 77,752 km). The average selling price of special cables increased significantly by approximately 99.9% from approximately RMB6,279 per km for the year ended 31 December 2016 to approximately RMB12,551 per km for the year ended 31 December 2017. This increase in average selling price was mainly due to the increase in copper price and the increase in the sales of mining cables which carried a higher average selling price during the year under review. Gross profit margin decreased slightly by approximately 0.3% to approximately 22.4% during the year under review (year ended 31 December 2016: 22.7%).

### Turnover by geographical markets

The PRC remained the Group's key market during the year under review. Turnover in the PRC market for the year ended 31 December 2017 increased by approximately 26.8% to approximately RMB11,065.4 million (year ended 31 December 2016: RMB8,723.2 million), which accounted for approximately 97.3% (year ended 31 December 2016: 95.7%) of the Group's total turnover, and such increase was primarily due to the improvement in the supply-demand structure of the PRC market as a result of the supply-side structural reform carried out by the Chinese government.

Turnover contributed by overseas markets decreased by approximately RMB78.4 million or approximately 20.2% to approximately RMB309.6 million for the year ended 31 December 2017 (year ended 31 December 2016: RMB388.0 million). This decrease was mainly attributable to the material decrease in the turnover generated from South Africa and Vietnam, which was partly offset by the increase in the turnover generated from Brunei during the year under review.

## GEOGRAPHICAL COMBINATION 2017




## PROGRESSIVE EXPANSION IN OVERSEAS MARKETS

Apart from manufacturing and selling wire and cable products, the Group has also been actively seeking for new opportunities in the industry chain, including the provision of high value-added cable sales and EPC projects, with a view to minimising the impacts brought by fluctuations in raw material prices and strengthening the service capacity of the Group in respect of project management. In addition, the Group has been actively exploring its overseas markets and expanding its overseas client base, thereby increasing its revenue sources while enhancing recognition of its brands.

On 8 December 2015, a subsidiary of the Company entered into a strategic cooperation agreement with Gezhouba Engineering to jointly explore and develop the international markets, focusing on the expansion and cooperation in EPC projects and the sale of cables driven by EPC projects. On 7 April 2016, the same subsidiary of the Company and Gezhouba Engineering further entered into a supplemental strategic cooperation agreement, pursuant to which Gezhouba Engineering would become a distributor of the Group to sell and promote cable products of the Group through its overseas branches to allow further expansion of the global sales networks of the Group.

Following the implementation of the "Belt and Road" Initiative by the Chinese government, the Group has dedicated efforts to expanding into markets in the Asia Pacific region, such as Bangladesh, Fiji, Cambodia and Pakistan. The Group has also started strategic cooperation with construction companies in Hong Kong to enhance its brand recognition in Hong Kong.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of goods sold

Cost of goods sold which was composed of costs of raw materials, production costs and direct labour costs, increased by approximately 29.6% to approximately RMB10,051.1 million during the year under review (year ended 31 December 2016: RMB7,753.2 million). Costs of raw materials accounted for approximately 95.9% of cost of goods sold in 2017 (2016: 95.8%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 79.5% of cost of goods sold in 2017 (2016: 78.8%). Direct labour costs remained at approximately 1.3% of total cost of goods sold in 2017 (2016: 1.3%). The remaining balance of approximately 2.8% of the cost of goods sold in 2017 (2016: 2.9%) was attributable to production costs which mainly consisted 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.

## Gross profit and gross profit margin

The gross profit decreased by approximately RMB34.2 million, or approximately 2.5%, from approximately RMB1,358.0 million for the year ended 31 December 2016 to approximately RMB1,323.9 million for the year ended 31 December 2017. Gross profit margin decreased from approximately 14.9% for the year ended 31 December 2016 to approximately 11.6% for the year ended 31 December 2017. The decrease in gross profit margin for the year ended 31 December 2017 was due to (i) discounts offered to customers on certain products, the quality of which was slightly affected by the flood in 2016; (ii) the increase in additional costs of production incurred, including the increase in material costs and direct labour costs; and (iii) more orders of low–rated voltage power cables which carried a lower gross profit margin were shifted by customers from smaller manufacturers to the Group due to the changes in market requirements as a result of the Aokai Incident during the year under review.

## Profit for the year attributable to owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2017 decreased by approximately 80.4% from approximately RMB531.3 million for the year ended 31 December 2016 to approximately RMB103.9 million. The decrease was mainly attributable to (i) the decrease in gross profit for the year under review as compared with that for the year ended 31 December 2016, despite turnover for the year under review having increased by approximately 24.8% as compared with that for the year ended 31 December 2016; (ii) inventories being written-down during the year ended 31 December 2017, which were absent during the year ended 31 December 2016; and (iii) the increase in the aggregate of the selling and distribution costs, administrative expenses and finance costs during the year under review, as compared with the aggregate of those for the year ended 31 December 2016.

## Selling and distribution costs

During the year under review, selling and distribution costs mainly represented the Group's salary and welfare expenses 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 approximately RMB57.7 million, or approximately 26.3%, from approximately RMB219.1 million for the year ended 31 December 2016 to approximately RMB276.8 million for the year ended 31 December 2017. This increase in selling and distribution costs which was in line with the increase in the turnover of the Group, was mainly due to the increase in (i) the marketing expenses incurred for the promotion of the Group's products; (ii) the costs incurred in bidding projects; and (iii) the transportation expenses caused by the "Administrative Regulation on Overloaded Transportation Vehicles on Highways" promulgated by the Chinese government in September 2016. Selling and distribution costs as a percentage of turnover remained stable at approximately 2.4% for the years ended 31 December 2017 and 2016.

## Administrative expenses

Administrative expenses increased by approximately RMB7.7 million, or approximately 3.3%, from approximately RMB234.6 million for the year ended 31 December 2016 to approximately RMB242.3 million for the year ended 31 December 2017, mainly due to (i) the increase in travelling expenses incurred for management site visits in relation to potential projects; and (ii) the increase in the staff costs. The administrative expenses as a percentage of turnover decreased from approximately 2.6% for the year ended 31 December 2016 to approximately 2.1% for the year ended 31 December 2017.

## Research and development costs

Research and development costs increased by approximately 9.9% from approximately RMB32.2 million for the year ended 31 December 2016 to approximately RMB35.4 million for the year ended 31 December 2017. This increase was mainly resulted from the increase in spending incurred by the Group on research and development of new products and technology during the year ended 31 December 2017, compared to that incurred in the year ended 31 December 2016.

## Other losses

Other losses were composed of bad debt expense, loss on disposal of property, plant and equipment and write-down of inventories. Other losses increased dramatically by approximately 528.6% from approximately RMB68.5 million in the year ended 31 December 2016 to approximately RMB430.8 million in the year under review. This significant increase in other losses was mainly due to the one-off write-down of inventories during the year ended 31 December 2017 (which was absent during the year ended 31 December 2016), that was partly alleviated by the decrease in the provision of bad debts for long outstanding receivables for the year ended 31 December 2017, as compared with that for the year ended 31 December 2016.

## Finance costs

Finance costs increased by approximately 13.7% from approximately RMB221.6 million for the year ended 31 December 2016 to approximately RMB251.9 million for the year ended 31 December 2017, which was mainly attributed to the increase in the use of interest-bearing bank bills in financing the Group's operations during the year under review. Finance costs as a percentage of turnover reduced to approximately 2.2% for the year ended 31 December 2017 from approximately 2.4% for the year ended 31 December 2016.

## Taxation

The Group's taxation decreased by approximately RMB83.7 million, or approximately 67.0%, from approximately RMB124.9 million for the year ended 31 December 2016 to approximately RMB41.3 million for the year ended 31 December 2017. This decrease in taxation was in line with the decrease in taxable income during the year under review. The effective tax rate for the year under review was approximately 28.4% (2016: 19.1%). The increase in effective tax rate was mainly due to the increase in the proportion of non-deductible expenses for tax purpose, such as allowance for bad and doubtful debts, to the profit before taxation.

## Staff number and remuneration

The Group's remuneration policy is based on the position, duties and performance of the employees. The remuneration of the Group's employees, including their salary, overtime allowance, bonus and various subsidies, varies according to their positions. The performance appraisal cycle varies according to the positions of the Group's employees. The performance appraisal of the Group's senior management is conducted annually, and that of the department heads is conducted quarterly while that of the Group's remaining staff is conducted monthly. The performance appraisal is supervised by the Group's performance management committee. The total staff costs of the Group amounted to approximately RMB249,441,000 (2016: RMB251,060,000) for the year under review. In addition, the Group has provided on-the-job training programmes, internal seminars and an e-learning platform to the staff and the management of the Group in order to enhance their career progression.

# MANAGEMENT DISCUSSION AND ANALYSIS

Following the listing ("Listing") of the Company on the Main Board of The Hong Kong Stock Exchange Limited ("Stock Exchange"), the overall remuneration structure and process have remained the same as before Listing, except that the remuneration committee of the Company has performed certain functions as set out in the paragraph headed "Remuneration Committee" in the Corporate Governance Report after Listing. As at 31 December 2017, the Group had 3,559 employees with 3,540 based in the PRC, 14 based in South Africa and 5 based in Hong Kong. A breakdown of employees by function as at the same date is as follows:

| Department | Number of employees |
|---|---|
| Management and administration | 371 |
| Finance, control and accounting | 121 |
| Procurement | 26 |
| Production and quality assurance | 2,250 |
| Sales and marketing | 530 |
| Engineering, research and development | 261 |
| Total | 3,559 |

*Notes:*

1. The three independent non-executive directors of the Company ("Directors") are not included above because they are not the Group's employees.

2. 154 professional qualified management personnel are included in the production and quality assurance department and finance, control and accounting department above.

3. Please refer to Note 10 of Notes to the Consolidated Financial Statements for the details of the remuneration of the Directors for the years ended 31 December 2016 and 2017.

## EARNINGS PER SHARE

For the year ended 31 December 2017, the basic earnings per share decreased to HK3.07 cents (or RMB2.57 cents), as compared with HK15.2 cents (or RMB13.15 cents) for the year ended 31 December 2016. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB103.9 million (year ended 31 December 2016: RMB531.3 million) and on the weighted average number of 4,038,757,000 (year ended 31 December 2016: 4,041,507,000) ordinary shares in issue less shares held by the trustee for the share award scheme adopted by the Company on 9 September 2015.

The weighted average number of ordinary shares for the purpose of diluted earnings per share has been adjusted for the shares granted under the share award scheme of the Company for the year ended 31 December 2017.

## LIQUIDITY AND FINANCIAL RESOURCES

The management and control of the Group's financial, capital management and external financing functions are centralised. The Group has been adhering to the principle of financial management. During the year under review, the main sources of funding to the Group were the proceeds generated from operating activities in the ordinary course of business of the Group and borrowings from the banks. The net-debt-to-equity ratio and the total debt to total assets ratio disclosed in the paragraph headed "Financial Position of the Group" below are used to measure the extent the Group is taking on debts as a means of leveraging. They are the key performance indicators used by the management of the Group to manage and control the Group's financial resources and to assess the Group's liquidity, so as to ensure the Group can carry on its business without any going concern issue, and achieve its objective of funding its business growth with the optimal capital structure. In general, the higher these ratios, the more aggressive the Group has been financing its growth with debts.

## FINANCIAL POSITION OF THE GROUP

### 1. Shareholders' equity

The Group has maintained a solid financial position for the year under review, and the shareholders' equity attributable to owners of the Company decreased slightly to approximately RMB5,290.5 million as at 31 December 2017 from approximately RMB5,296.5 million as at 31 December 2016, representing a decrease of approximately 0.1%. The decrease in equity attributable to shareholders was mainly attributable to the decrease in accumulated profits for the year under review as a result of the amount of the final dividend distributed to the shareholders of the Company for the year ended 31 December 2016 being in excess of the profit attributable to owners of the Company for the year under review.

### 2. Assets

As at 31 December 2017, total assets of the Group amounted to approximately RMB13,433.9 million (31 December 2016: RMB12,465.6 million), representing an increase of approximately 7.8%.

Non-current assets increased by approximately 8.9% from approximately RMB1,261.1 million as at 31 December 2016 to approximately RMB1,373.8 million as at 31 December 2017. The increase was mainly due to the increase in deposits paid for the acquisition of property, plant and equipment, the acquisition of land use rights and the increase in a loan advanced to an associate during the year under review.

Current assets increased by approximately 7.6% from approximately RMB11,204.6 million as at 31 December 2016 to approximately RMB12,060.1 million as at 31 December 2017, which was mainly due to (i) the increase in trade and bill receivables outstanding; and (ii) increase in inventories due to the increase in goods not yet delivered, both being a result of the increase in turnover of the Group for the year under review.

As at 31 December 2017, the Group had bank balances and cash of approximately RMB1,479.8 million (as at 31 December 2016: RMB2,172.5 million), and pledged bank deposits of approximately RMB1,727.2 million (as at 31 December 2016: RMB1,425.5 million).

The Group's treasury policy is to keep its investment costs under control and manage the returns of its investments efficiently. Short-term borrowings work better than long-term borrowings to finance the Group's working capital needs. Any excess cash that is generated from the Group's operations will be placed in short-term and low-risk banking products that are not sensitive to foreign exchange fluctuations to maximise the Group's investment returns.

### 3. Borrowings

Total interest-bearing bank borrowings decreased by approximately 6.5% from approximately RMB3,565.4 million as at 31 December 2016 to approximately RMB3,332.1 million as at 31 December 2017. Of the Group's total bank loans outstanding as at 31 December 2017, approximately 90.5% (2016: 94.8%) of short-term borrowings were made by the Group's subsidiaries in the PRC, namely Wuxi Jiangnan Cable, Wuxi New Suneng Electric Power Science & Technology Co., Ltd ("Wuxi New Suneng"), Zhongmei Cable, Jiangsu Kai Da Cable Company Limited ("Jiangsu Kai Da") and Wuxi New Sun Cable Company Limited ("Wuxi New Sun"). These loans were not guaranteed by the Company.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash and pledged bank deposits) of approximately RMB125.1 million over total equity of approximately RMB5,291.0 million as at 31 December 2017, increased from approximately -0.6% as at 31 December 2016 to approximately 2.4% as at 31 December 2017. The increase in the net-debt-to-equity ratio as compared with that as at 31 December 2016, was mainly due to the decrease in bank balances and cash as at 31 December 2017.

As at 31 December 2017, the total debt to total assets ratio of the Group, defined as a percentage of total liabilities (current liabilities and non-current liabilities) of approximately RMB8,142.9 million over total assets (current assets and non-current assets) of approximately RMB13,433.9 million, increased slightly to approximately 60.6% from approximately 57.5% as at 31 December 2016. The increase was mainly due to an increase in total liabilities.

The Group had sufficient committed but unused banking facilities of approximately RMB2,155.4 million as at 31 December 2017 to meet the need of the Group's business development. There was no material seasonality in relation to the borrowing requirements of the Group.

As at 31 December 2017, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB194.9 million and approximately RMB29.7 million, respectively (as at 31 December 2016: RMB183.7 million and RMB58.5 million, respectively) to certain banks to secure credit facilities granted to the Group.

During the year ended 31 December 2017, the Group's borrowings were mainly denominated in Renminbi ("RMB") and carried interest at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China ("PBOC"). As at 31 December 2017, the majority of the Group's bank balances and cash were denominated in RMB. As the Group's revenue was mainly denominated in RMB and its major expenses were denominated either in RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the year under review.

As at 31 December 2017, approximately 78.2% (as at 31 December 2016: 85.5%) of the Group's total bank borrowings carried fixed interest rates.

All of the Group's bank borrowings as at 31 December 2017 were due within one year.

During the years ended 31 December 2017 and 2016, no interest expense has been capitalised.

During the years ended 31 December 2017 and 2016, the Group did not employ any financial instruments for hedging purposes.

## CAPITAL COMMITMENT

The capital expenditures in the coming year are expected to be settled by cash through internal resources of the Group. Please refer to Note 32 of Notes to the Consolidated Financial Statements for the details of the capital commitment of the Group as at 31 December 2017. Other than those as disclosed, the management of the Group does not expect there to be any plans for material investments or capital assets in the coming year with reference to the current situation as at the date of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group is principally engaged in the manufacturing and trading of wires and cables, which are exposed to certain market risks including interest rate risk, credit risk, commodity risk and foreign currency risk, the details of which are set out below. The Group's business and profitability growth are affected by the volatility and uncertainty of macro-economic conditions in the PRC and other global regions. Any change in the macro-economic conditions may directly affect the costs of production and demand for the Group's products.

### 1. Interest rate risk

The Group's fair value and cash flow interest rate risks are 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 of all such financial risks. The Group is planning to leverage on the Hong Kong capital market platform to obtain lower cost funding. The Group will continue to review the market trends, as well as its business operation needs and industry position, so as to arrange for the most effective interest risk management tools.

For its potential financial impact on the Group's performance, please refer to the sensitivity analysis in Note 30 of Notes to the Consolidated Financial Statements.

### 2. Credit risk

The carrying amounts of trade and other receivables, bills receivables and bank and cash balances, including pledged bank deposits as presented in the consolidated statement of financial position set out in this annual report, represent the Group's exposure to credit risk in relation to its financial assets.

The Group's credit risk is primarily attributable to its trade and other receivables. The Group has policies in place to ensure that sales are made to customers following an appropriate credit assessment. In addition, the Directors review the recoverable amount of each trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. As at 31 December 2017, the five largest trade and bills receivables represented approximately 7.3% (2016: 11.4%) of the total trade and bills receivables.

The Directors believe that the credit risk on bank balances and deposits or bills receivables is limited because the majority of the counterparties of the Group are state-owned banks with good reputation and high credit-ratings as graded by international credit-rating agencies.

### 3. Commodity risk

Since the costs of commodities such as copper and aluminium are one of the most important components of the Group's cost of goods sold, its financial results and condition are highly sensitive to the fluctuations in the prices of commodities. While the Group may be able to partially offset these fluctuations with a flexible pricing policy and a production cost locking mechanism, it will still be exposed to the risks associated with the fluctuations in the costs of these materials in the event that the Group fails to pass on such costs to its customers. The Group believes that it has successfully passed on most of such risks to its customers and as a result, the Group has been able to maintain its gross profit margin relatively stable in the past.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Foreign currency risk

The Group had certain transactions that were denominated in foreign currencies, which made its results of operation susceptible to foreign currency risk. During the year ended 31 December 2017, sales denominated in currencies other than the functional currency of the group entity to which it related represented approximately 3% (2016: 3%) of the Group's sales. The Group has an operating subsidiary in South Africa. As a result of the Group's sales and operations, the Group is exposed to currency fluctuations in United States Dollars, Singapore Dollars, South Africa Rands and Hong Kong Dollars.

The Group's borrowings are mainly denominated in RMB and carry interest rates at a premium or discount to the PBOC interest rates. As its revenue is mainly denominated in RMB and its major expenses are denominated either in RMB or Hong Kong Dollars, the Group faces relatively low currency risk.

During the year ended 31 December 2017, the Group did not have a foreign currency hedging policy in respect of its foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

For its potential financial impact on the Group's performance, please refer to the sensitivity analysis in Note 30 of Notes to the Consolidated Financial Statements.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2017. As at the date of this annual report, the Group was not involved in any current material legal proceeding, nor was the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it was probable that a loss had been incurred and the amount of the loss could be reasonably estimated.

## PROSPECTS

In 2017, the cable industry in China was adversely affected by the Aokai Incident which was a one-off incident. It is expected that 2018 will be a year of turnaround for the cable industry, leaving behind the adverse financial impacts resulted from the Aokai Incident. It is also expected that the Aokai Incident would be a catalyst to speed up the pace of consolidation for the cable industry which would benefit the Group in the long run.

In 2018, the Group will face significant development opportunities, as investments in infrastructure and heavyweight equipment will continue to grow in China under the "13th Five-Year Plan" and the "Made in China 2025" Program. Energy conservation and environmental protection will be the focus of economic developments in the PRC, which will lead to the extensive use of ultra-high-voltage conductors that the Group is capable to produce, which are mainly characterised by efficient performance with lower energy loss in power transmission.

In order to meet the continuous growth in demand of electricity in China, especially in the urban areas, it is inevitable that high-voltage power cables and extra-high-voltage power cables with such advantages, including enormous capacity, great reliability, and close to zero maintenance will gradually be used to replace lower-rated voltage power cables in the power distribution networks.

During the "13th Five-Year Plan" period, the total investments to be made in the construction of power distribution networks in the PRC are expected to reach more than RMB 1.7 trillion. According to the "13th Five-Year Plan", by 2020, the high-voltage power distribution lines will reach a total length of 1.01 million kilometers, while the medium-voltage power distribution lines will reach a total length of 4.04 million kilometers. The "13th Five-Year Plan" also formulates the reconstruction of rural power distribution networks with a total investment amount exceeding RMB700 billion. The planned investments in the power grids have been evidenced by the total amount of investments made by SGCC in grid networks in 2016 and 2017 of RMB496.4 billion and RMB485.4 billion respectively. The planned investments of SGCC in grid networks in the PRC in 2018 will be RMB498.9 billion, representing an increase of approximately 2.8% as compared with those in 2017.

During the "13th Five-Year Plan" period, the total investments in transportation in the PRC will reach RMB 15 trillion, of which RMB3.5 trillion will be fixed investments in railways, RMB7.8 trillion in highways, RMB650 billion in civil aviation, and RMB500 billion in water transportation. By the end of the "13th Five-Year Plan" period, there will be more than 3,000 km of urban rail lines and 23,000 km of new railway lines put into operation. It is expected the investments in urban rail lines will reach RMB1.7 trillion to RMB2 trillion and the investments in railways will be not less than RMB3.8 trillion by the end of the "13th Five-Year Plan" period. All of the above will trigger an increase in the procurement of various cable products in China, which will benefit the development of the Group.

In 2018, China overseas exhibitions will experience a period of fast growth. These exhibitions will increasingly drive economic growth in the PRC. According to the report delivered by the General Party Secretary Xi Jinping during the 19th National Congress of the Communist Party of China, the Chinese government shall closely focus on developing an open economy and expanding foreign trade. With the "Belt and Road" Initiative as a priority, the Chinese government shall develop new models and forms of trade, while turning China into a strong trade economy. The "Belt and Road" Initiative will bring a historic opportunity to the transformation of the cable industry, as the production capacities of cable products and their output volumes will be boosted, while international cooperation between enterprises will be increasingly encouraged. In this regard, the Group will seize the opportunities arising from both the construction, reformation and upgrade of national grids, and the growing infrastructure projects to improve the Group's turnover and market share by enriching the Group's product mix and enhancing the quality of its products. At the same time, the Group will leverage on the experience of its business partners to strengthen its business development and cooperation in EPC projects, further upstream and downstream business expansions and international market development, and seek a new wave of fast development.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board recognises that good corporate governance is fundamental to the smooth and effective operation of the Group and enhances the shareholders' value. The Board is always committed to maintaining good corporate governance practices and procedures.

Prior to 20 April 2012 ("Listing Date"), the date on which the shares of the Company were first listed on the Main Board of the Stock Exchange, the Company had adopted a code of corporate governance, containing the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and had during the year ended 31 December 2017 ("Relevant Period") complied with the CG Code except for the following deviation.

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not had a separate chairman ("Chairman") and chief executive officer ("Chief Executive Officer") during the year under review. 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 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 as all major decisions are made in consultation with the Board members and the senior management of the Company. The current arrangement will enable the Company to make and implement decisions promptly and efficiently. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

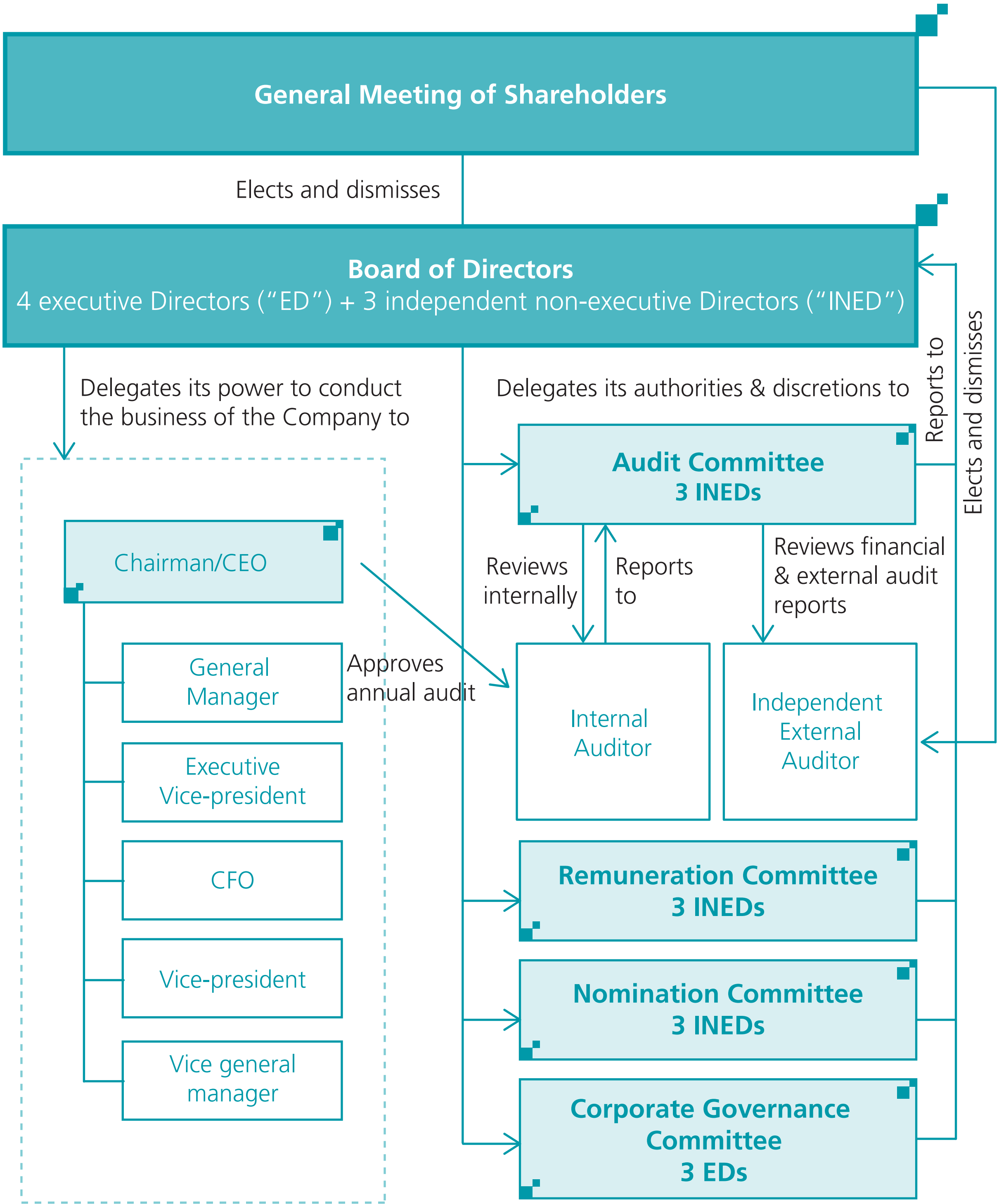
## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by Directors on terms not less exacting than the required standards contained in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules ("Model Code").

Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2017.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them from dealing in the securities of the Company at any time when they possess inside information in relation to those securities. No incident of non-compliance of the Model Code by any relevant officers or employees during the year ended 31 December 2017 was noted by the Company.

## CORPORATE GOVERNANCE STRUCTURE



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Board composition

As at 31 December 2017 and the date of this annual report, the Company had four executive Directors and three independent non-executive Directors. Biographical details of the Directors (including the relationships between the Directors) are set out on pages 52 to 55 in this annual report. The Directors bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the provision of effective direction to the Group. The Board considers its current composition to have achieved good diversity in terms of educational background and professional experience.

The Board comprises the following Directors during the year ended 31 December 2017:

### Executive Directors

Mr. Chu Hui (Chairman of the Board, Chief Executive Officer, and Chairman of the Corporate Governance Committee)
Ms. Xia Yafang
Mr. Jiang Yongwei (Member of the Corporate Governance Committee)
Mr. Hao Minghui (Member of the Corporate Governance Committee)

### Independent non-Executive Directors

Mr. Poon Yick Pang Philip (Chairman of the Audit Committee, Member of the Remuneration Committee and the Nomination Committee)
Mr. He Zhisong (Chairman of the Remuneration Committee and the Nomination Committee, and Member of the Audit Committee)
Mr. Yang Rongkai (Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)

Other than the independent non-executive Directors, all executive Directors were appointed on a full-time basis. All Directors are required to comply with their responsibilities as Directors and their common law duty as directors.

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing the appropriate professional qualifications, or accounting or related financial management expertise. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

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 confirmations, the Board considers all independent non-executive Directors to be independent.

## Board responsibilities and delegation

The Board collectively determines the overall strategies of the Company, monitors its performance and the related risks and controls in pursuit of the strategic objectives of the Company. Day-to-day management of the Company is delegated to the executive Directors or the officers in charge of each division and function, who are required to report back to the Board. Functions reserved to the Board and those delegated to the management are reviewed periodically. All Board members have separate and independent access to the senior management, and are provided with full and timely information about the conduct of the business and development of the Company. Should separate independent professional advice be considered necessary by the Directors or any Board committee, independent professional services would be made available to the Directors or such Board committee upon request.

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day operations of the Group. The management of the Company has provided all Directors with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail to enable the Board and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to the powers of the management including the circumstances under which the management should report back to the Board, and reviews the delegation arrangements on a periodic basis to ensure that they remain effective to the needs of the Group.

## Chairman's responsibility

The Chairman is primarily responsible for ensuring that good corporate governance practices and procedures are established.

The Chairman has encouraged all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Company. Directors with different views are encouraged to voice their concerns and they are allowed sufficient time to discuss issues in meetings to ensure that Board decisions fairly reflect Board consensus.

During the year under review, the Chairman has held meetings with the non-executive Directors without the executive Directors present. The Chairman has ensured that appropriate steps are taken to provide effective communication with shareholders of the Company and that their views are communicated to the Board as a whole.

The Chairman has promoted a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between the executive and non-executive Directors.

## Chairman and Chief Executive Officer

The Chairman provides leadership to the Board. The Chief Executive Officer has responsibility for the Group's overall business and development strategies, and daily management generally.

## Directors' Responsibility in respect of the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the Company's annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

As at the date of this annual report, the Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

## Company secretary

The company secretary of the Company ("Company Secretary") supports the Chairman, the Board and the Board committees by ensuring good information flow and that Board policy and procedures are followed. He advises the Board on governance matters and facilitates the induction and professional development of the Directors. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs. He has been appointed by the Board since the Company was listed on the Main Board of the Stock Exchange in 2012. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors may call upon him for advice and assistance at any time in respect of their duties and the effective operation of the Board and the Board committees.

During the year under review, the Company Secretary has complied with Rule 3.29 of the Listing Rules and has taken more than 15 hours of relevant professional training.

## Board meetings and attendance

The Board meets regularly to review the financial and operating performance of the Company and to discuss future strategy. Four Board meetings were held during the Relevant Period. At the Board meetings held during the Relevant Period, the Board reviewed significant matters including the Company's annual and interim financial statements, proposals for final and interim dividends, annual report and half-year report. At least 14 days' notice had been given to all Directors for all regular Board meetings held during the Relevant Period. The Chairman had ensured that all Directors were properly briefed on issues arising at the Board meetings. All Directors were provided with accurate, clear, complete and reliable information in a timely manner. All Directors were given the opportunity to include matters for discussion in the agenda. The agenda and Board papers for each meeting were sent to all Directors at least 3 days in advance of every regular Board meeting. All minutes of the Board meetings are kept by the Company Secretary and are available to all Directors for inspection either in physical form or electronic copy.

Four Board meetings and one general meeting ("General Meeting") were held during the year ended 31 December 2017. The attendance record of each Director at the Board meetings and the General Meeting during the year ended 31 December 2017 is set out below:

| Directors | Attendance at Board meetings | Attendance at General Meeting |
|---|---|---|
| **Executive Directors** | | |
| Mr. Chu Hui *(Chairman)* | 4 | 1 |
| Ms. Xia Yafang | 4 | 1 |
| Mr. Jiang Yongwei | 4 | 0 |
| Mr. Hao Minghui | 4 | 1 |
| **Independent Non-executive Directors** | | |
| Mr. He Zhisong | 4 | 1 |
| Mr. Yang Rongkai | 4 | 0 |
| Mr. Poon Yick Pang Philip | 4 | 1 |

## Directors' continuing professional development programme

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors, namely, Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei, Mr. Hao Minghui, Mr. He Zhisong, Mr. Yang Rongkai and Mr. Poon Yick Pang Philip have confirmed that they have complied with Code Provision A.6.5 of the CG Code for the year ended 31 December 2017. The Company has arranged trainings on certain aspects of the Listing Rules for the Directors. Each Director has attended such trainings.

## Term of appointment of the independent non-executive Directors

As as the date of this annual report, the independent non-executive Directors have been re-appointed for a term of three years commencing on 1 March 2018. Pursuant to the articles of association of the Company, all Directors (including independent 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.

## BOARD COMMITTEES

The Board has established a number of committees to discharge the Board functions. Sufficient resources are provided to enable the Board committees to undertake their specific roles. The respective roles, responsibilities and activities of each Board committee are set out below:

### Remuneration Committee

On 25 February 2012, the Company established a remuneration committee ("Remuneration Committee") which has written terms of reference as suggested under the CG Code. The main functions of the Remuneration Committee include: (i) to make recommendations to the Board on the Company's policy and the remuneration structure of all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve the management's 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 of the Remuneration Committee have been posted on the Company's and the Stock Exchange's websites.

The Remuneration Committee has adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code and advised and made recommendations to the Board on the Group's overall policy and structure for the remuneration of Directors and the senior management.

Details of the remuneration packages of the executive Directors and the information about the five highest paid individuals are set out in Note 10 of the Notes to the Consolidated Financial Statements. Remuneration packages of the senior management not disclosed in Note 10 of the Notes to the Consolidated Financial Statements for the year under review were in the band of nil to HK$1,000,000.

During the year ended 31 December 2017, one Remuneration Committee meeting was held. During the year ended 31 December 2017, the Remuneration Committee had reviewed the remuneration policy of the Company and the remuneration packages of certain Directors, reviewed and made recommendations to the Board in relation to the remuneration packages of Directors and the senior management, and resolved the vesting arrangement of the shares of the Company which were vested on 1 April 2017 under the Share Award Scheme adopted by the Company in 2015.

| Membership and Attendance | |
|---|---|
| **Members** | **Attendance** |
| **Independent Non-executive Directors** | |
| Mr. He Zhisong *(Chairman of the Remuneration Committee)* | 1 |
| Mr. Yang Rongkai | 1 |
| Mr. Poon Yick Pang Philip | 1 |

## Nomination Committee

On 25 February 2012, the Company established a nomination committee ("Nomination Committee") which has written terms of reference as suggested under the CG Code. 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. The primary functions of the Nomination Committee include: (i) to review the Board's diversity including 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 Officer; (iii) to assess the independence of the independent non-executive Directors; (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 market place; and (v) to identify individuals suitably qualified to become Board members. The written terms of reference of the Nomination Committee have been posted on the Company's and the Stock Exchange's websites.

The Board has adopted a board diversity policy which sets out the approach to achieve and maintain diversity of the Board in order to ensure governance. Appointment of the Board members is based on merit and candidates are considered against objective criteria, having due regard to the benefits of diversity of the Board, including but not limited to age, education background, professional experience, skills and knowledge. The process of the nomination of Directors is led by the Nomination Committee which has been made on a merit basis. The Board considers that its current composition has achieved good diversity in terms of the education background and professional experience of its members.

During the year ended 31 December 2017, two Nomination Committee meetings were held. During the year ended 31 December 2017, the Nomination Committee had reviewed the structure, the number of members and the composition of the Board.

| Membership and Attendance<br>Members | Attendance |
|---|---|
| **Independent Non-executive Directors** | |
| Mr. He Zhisong *(Chairman of the Nomination Committee)* | 2 |
| Mr. Yang Rongkai | 2 |
| Mr. Poon Yick Pang Philip | 2 |

# CORPORATE GOVERNANCE REPORT

## Audit Committee

On 25 February 2012, the Company established an audit committee ("Audit Committee") that has written terms of reference as suggested under the CG Code. 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 of the Company as a whole. Its primary duties include: (i) to consider and make recommendations 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 its resignation or dismissal; (iii) to review the Company's financial controls, and its risk management and internal control systems; (iv) to monitor the 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 and objectivity and the effectiveness of the audit process in accordance with the applicable standards. The written terms of reference of the Audit Committee have been posted on the Company's and the Stock Exchange's websites. Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the meetings are sent to all committee members for their comments and records within a reasonable time after each meeting.

During the year ended 31 December 2017, two Audit Committee meetings were held. The Audit Committee had reviewed the Company's accounts, results for the year ended 31 December 2016 and results for the six months ended 30 June 2017 and recommended to the Board to adopt, approve and disclose the same in the annual and half-year reports. The Audit Committee had reviewed and agreed with the audit plan proposed by the Company's independent auditor, Deloitte Touche Tohmatsu. The Audit Committee had also reviewed the risk management and internal control systems adopted by the Group and considered these risk management and internal control systems effective and adequate.

| Membership and Attendance | |
|---|---|
| **Members** | **Attendance** |
| **Independent Non-executive Directors** | |
| Mr. Poon Yick Pang Philip *(Chairman of the Audit Committee)* | 2 |
| Mr. He Zhisong | 2 |
| Mr. Yang Rongkai | 2 |

## Corporate Governance Committee

On 25 February 2012, the Company established a corporate governance committee ("Corporate Governance Committee") which has written terms of reference as suggested under the CG Code. 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 the Directors and the 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 the employees and directors of the Group. The terms of reference of the Corporate Governance Committee have been posted on the Company's and the Stock Exchange's websites.

During the year ended 31 December 2017, one Corporate Governance Committee meeting was held. The Corporate Governance Committee had reviewed the Company's status of compliance with the CG Code and the Corporate Governance Report. The Corporate Governance Committee reviewed and approved the disclosure in this annual report regarding the deviation of the Group from Code Provision A.2.1 of the CG Code.

| Membership and Attendance | |
|---|---|
| **Members** | **Attendance** |
| **Executive Directors** | |
| Mr. Chu Hui *(Chairman of the Corporate Governance Committee)* | 1 |
| Mr. Jiang Yongwei | 1 |
| Mr. Hao Minghui | 1 |

## ACCOUNTABILITY AND AUDIT

### Financial reporting

The Board recognises the importance of the integrity of financial information and acknowledges its responsibility for preparing interim and annual financial statements that give a true and fair view of the Group's affairs, results and cash flows in accordance with the Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong). When presenting financial information, disclosing inside information and making other financial disclosures as required by regulations, the Board endeavours to present in a timely manner to the shareholders and other stakeholders of the Company a balanced and understandable assessment of the Group's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable. Prior to the adoption of the financial statements and the related accounting policies, the relevant financial information is discussed between the external auditor and the management, and then submitted to the Audit Committee for review.

The responsibilities of Deloitte Touche Tohmatsu, Certified Public Accountants, the external auditor of the Company ("Auditor"), are stated in the Independent Auditor's Report of the Company's annual report for the year ended 31 December 2017.

### External auditor's remuneration

The fees in relation to the audit services provided by the Auditor for the year ended 31 December 2017 amounted to HK$2,750,000 (2016: HK$2,750,000). The Auditor did not provide any non-audit services to the Group for the years ended 31 December 2017 and 2016.

### Risk management and internal control

The Board has overall responsibility for the effectiveness of the risk management and internal control systems, and it monitors these risk management and internal control systems through the internal audit department of the Group. The internal audit department of the Group reviews the material controls of the Group annually, which aims to cover all major operations of the Group. Overall, an internal audit function is in place and provides the Board with reasonable assurance that the risk management and internal control systems of the Group are effective and adequate. The Board also reviews regularly the adequacy of resources, qualifications and experience of the staff of the Company's accounting and financial reporting function, and their training programmes and budget.

# CORPORATE GOVERNANCE REPORT

The Board (through the internal audit department of the Group) has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering the period from 1 January 2017 to 31 December 2017 in compliance with the requirements under Code Provision C.2 of the CG Code. As no major deficiency on the risk management and internal control systems was noted after the implementation of the solutions to resolve the internal control defects found in the review, the Board considered the risk management and internal control systems of the Group effective and adequate.

***Process used to identify, evaluate and manage significant risks***

During the process of risk assessment, the internal audit department of the Group is responsible for identifying the risks of the Group and deciding on the acceptable risk levels, and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments within the Group shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities. The identified risks together with the risk response will be reported to the Board.

***Main features of risk management and internal control systems***

The key elements of the risk management and internal control systems of the Group include the identification of risks, the assessment and evaluation of risks, the development and continuous update of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

An ongoing risk assessment approach is adopted by the Group for identifying and assessing the key inherent risks that hinder the Group from achieving its objectives. The assessment of the risks is mainly made in accordance with the likelihood of occurrence of events that are detrimental to the Group and the consequences of these events should they occur. The rating assigned to each risk reflects the level of the management's attention and risk control or the elimination efforts required with respect to that risk.

***Process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects***

The internal audit department of the Group conducts reviews on the effectiveness of the risk management and internal control systems of the Group and reports its findings to the Audit Committee. The Board is responsible for ensuring that adequate resources are allocated to the relevant departments within the Group so that material internal control defects found in the reviews of the risk management and internal control systems can be resolved and the recommendations made by the internal audit department of the Group can be implemented on a timely basis.

***Procedures and internal controls for the handling and dissemination of inside information***

The Board has established an inside information policy for the handling and dissemination of inside information. The inside information policy stipulates the obligations of the Group in relation to the restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Under the policy, the management of the Group must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of the disclosure requirements in relation to the Group. They must promptly bring any possible leakage or divulgence of inside information to the attention of the chief financial officer of the Company, who will notify the Board as soon as reasonably practicable to allow appropriate actions to be taken promptly. In the event that there is evidence of any material violation of the inside information policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

## SHAREHOLDERS' RIGHTS

### General meetings

During the year ended 31 December 2017, the Company had arranged for the notice to its shareholders to be sent for annual general meeting at least 20 clear business days before the meeting.

At the general meeting held during the year ended 31 December 2017, the chairman of the meeting had explained the detailed procedures for conducting a poll.

### Putting forward proposals at a general meeting

There are no provisions allowing shareholders of the Company to put forward proposals at the general meeting under the memorandum and articles of association of the Company or under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Shareholders of the Company may follow the procedures set out below to convene an extraordinary general meeting ("EGM") for any business specified in such written requisition.

### Procedure for shareholders to convene an EGM

Pursuant to the articles of associations of the Company, any one or more shareholders of the Company holding not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company ("Eligible Shareholder(s)") shall at all times have the right, by a written requisition ("Requisition") to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Eligible Shareholders who wish to require an EGM to be called by the Board must deposit a Requisition signed by the Eligible Shareholder(s) concerned to the principal office of the Company in Hong Kong, for the attention of the Board or the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda of the EGM, including the details of the business(es) proposed to be transacted at the EGM and signed by the Eligible Shareholder(s) concerned.

If within 21 days of the deposit of the Requisition, the Board has failed to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the memorandum and articles of association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) shall be borne by the Company.

### Shareholders' enquiries

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Jiangnan Group Limited
Unit 22, 15/F, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong
Email: joseph.chan@jng1366.com
Tel No.: +852 3998 3093
Fax No.: +852 3998 3094

The Company Secretary shall forward the enquiries and concerns of the Company's shareholders to the Board and/or the relevant Board committees, where appropriate, to answer the shareholders' questions.

## Investor relations and communication

The management of the Company believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company has adopted a stringent internal control system to ensure true, accurate, complete and timely disclosure of relevant information pursuant to the requirements of the relevant laws and regulations and to ensure all shareholders of the Company have equal access to information of the Company. In addition, since its Listing on 20 April 2012, the Company has proactively taken the following measures to ensure effective shareholders' communication and transparency:

- maintain contacts with the Company's shareholders and investors through various channels, such as meetings, telephone and emails;

- from time to time update the Company's news, announcements and developments through the investor relations section of the Company's website on http://www.jiangnangroup.com and the Stock Exchange's website on www.hkexnews.hk; and

- arrange on-site visits to the Group's operations in Yixing for shareholders of the Company, investors, stock brokers and research analysts.

## Information disclosure

The Company discloses information to the public and publishes its periodic reports and announcements in accordance with the Listing Rules and the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders of the Company, investors as well as the public to make rational and informed decisions.

## Constitutional documents

During the financial year ended 31 December 2017, there was no change in the Company's constitutional documents.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SCOPE AND REPORTING PERIOD

This is the Environmental, Social and Governance ("ESG") Report presented by the Company in compliance with the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules. As the Group's operations are substantially based in the PRC, this ESG Report focuses on the environmental and social performance of the major operating subsidiaries of the Company during the year ended 31 December 2017, namely Wuxi Jiangnan Cable, Wuxi New Suneng, Zhongmei Cable, Jiangsu Kai Da and Wuxi New Sun in the PRC (collectively referred to as "PRC Subsidiaries"), which accounted for over 98% of the turnover of the Group for the year ended 31 December 2017.

## MISSION AND VISION

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of social responsibilities and corporate governance essential to creating a framework which motivates the Group's staff to contribute to the community in which the Group conducts its business and to generate sustainable returns to the Group.

The Group's business objective is to strengthen its position in the wires and cables industry in the PRC by further expanding its business operations in the PRC and the overseas market. The environmental and social aspects also play a vital role in the development of the business of the Group as there have been growing public concerns regarding environmental protection and corporate responsibility. The Group considers that the success of its business largely depends on the satisfaction of its customers, which were achieved and contributed by the Group's employees. The Group has promoted a people-oriented culture and is committed to providing a fair and transparent human resource policy. The Group is also committed to providing a good working environment to promote employees' health and safety. The Group believes that being a socially responsible employer and building up an environmental friendly culture would assist the Group to win the support of the local community for the future development of the Group.

The Board has overall responsibility for the development of the ESG strategies, policies and measures, and the effectiveness of the ESG risk and management and control systems of the Group while the management is responsible for the implementation thereof. While ESG awareness is promoted by the administrative department of the Company and its subsidiaries internally within the Group, other relevant departments of the members of the Group are responsible for implementing the ESG practices, collecting ESG data and ensuring ESG compliance by the Group in its daily operations. The management and various departments of the members of the Group are involved in implementing the Group's ESG practises as they understand the ESG aspects of the Group's business and they are able to analyse their importance to the Group and the stakeholders of the Company as a whole, so that the Group's ESG strategy can be implemented effectively.

## ENVIRONMENTAL ASPECTS

Conservation of the environment is a key focus for the Group, and the Group is committed to conserving and improving the environment on a continuing basis.

### Emissions

To mitigate its impacts on the environment, it is the policy of the Group to minimise its air emissions, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes, through measures such as control of its energy consumption and reuse of the non-hazardous wastes generated in its production process.

The Group has been closely controlling and managing its carbon emissions and other air emissions (including methane, nitrous oxide and hydrofluorocarbons), with a focus on the efficient operation of its factories in the PRC. The Group has also been working to reduce its emissions by improving its energy efficiency and reducing its waste throughout its daily operations. While the PRC Subsidiaries are not subject to specific laws and regulations in relation to air emissions, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste for their business operations, they have complied with all other relevant laws and regulations in relation to their business operations during the year under review. The Group's major wholly-owned subsidiary, Wuxi Jiangnan Cable, which accounted for over 70% of the turnover of the Group in 2017, has engaged China Quality Certification Centre to carry out an independent third-party external examination of its greenhouse gas emissions during the year under review. The certification issued by China Quality Certification Centre in June 2017 revealed that Wuxi Jiangnan Cable has complied with the required level of carbon emissions under ISO 14064-1:2006.

During the year under review, the major air pollutants emitted by the factories of the PRC Subsidiaries were carbon dioxide, methane, nitrous oxide and hydrofluorocarbons, which were also greenhouse gases. The following table summarises the greenhouse gas emissions generated by the PRC Subsidiaries during the year ended 31 December 2017.

| Type of emissions | Quantity (Tonnes in carbon dioxide equivalent) | Intensity (Tonnes/cost of goods sold in thousand USD ("COGS(k$)")) |
|---|---|---|
| Carbon dioxide | 85,296 | 0.057 |
| Methane | 4,153 | 0.0028 |
| Nitrous oxide | 42 | $0.028 \times 10^{-3}$ |
| Hydrofluorocarbons | 1 | $0.067 \times 10^{-6}$ |
| Total | 89,492 | 0.060 |

To reduce emissions from its daily operations, the Group has used energy-efficient gas-fired boilers instead of coal-fired boilers. Comparing with a coal-fired boiler, approximately 378 tonnes of standard coal can be saved by each gas-fired boiler in a year, assuming each gas-fired boiler operates 7,920 hours annually. The Group has therefore effectively reduced greenhouse gas and tiny dust emissions for the sake of improving the air quality of its factory sites.

Furthermore, the Group has installed photovoltaic panels on the roof of its production plants to generate solar energy for the Group's own consumption and such panels were put into use during the year under review. It is estimated that the photovoltaic panels can generate up to approximately 15,000 MWh of electricity per year and is expected to save on use of approximately 6,000 tonnes of standard coal. Moreover, according to《關於公佈2009年中國低碳技術化石燃料併網發電項目區域電網基準線排放因子的公告》issued by the National Development and Reform Commission of China, the photovoltaic panel project can reduce approximately 12,690 tonnes of carbon dioxide emissions generated by the PRC Subsidiaries. During the year under review, approximately 11,600 MWh of electricity was generated by the photovoltaic panels for production in factories of the PRC Subsidiaries which was equivalent to a reduction of approximately 8,029 tonnes of carbon dioxide emissions.

Since the Group produced wires and cables mainly by physical transformation and assembling of already processed raw materials, only limited hazardous and non-hazardous wastes were produced. Therefore, the Group has not collected any data on the hazardous and non-hazardous wastes produced during the year under review. However, the Group has reused the non-hazardous wastes it produced and put them into production again. As a result, only insignificant amounts of non-hazardous wastes were disposed of during the year under review. For hazardous non-recyclable wastes such as wasted lubricating oil, the Group has outsourced the disposal of such hazardous wastes to relevant qualified operators.

## Use of resources

The Group is principally engaged in the manufacture and trading of wires and cables. Resources such as raw materials (particularly copper and aluminium), electricity and water, are essential inputs to the Group's business, particularly to support the operation of its factories in the PRC. In 2017, the PRC Subsidiaries have consumed approximately 99,000 MWh or 0.066 MWh/COGS(k$) (2016: 97,000 MWh or 0.084 MWh/COGS(k$)) of electricity, approximately 6,139,000 $m^3$ or 4.11 $m^3$/COGS(k$) (2016: 3,204,000 $m^3$ or 2.77 $m^3$/COGS(k$)) of natural gas and approximately 613,000 tonnes or 0.41 tonnes/COGS(k$) (2016: 615,000 tonnes or 0.53 tonnes/COGS(k$)) of water. There has been a significant increase in the use of natural gas by the Group during the year under review as the Group had fully replaced coal with natural gas as the fuel for its production since the second half of 2016 for the sake of reducing the greenhouse gas emissions generated.

The Group has established a comprehensive environmental management system, which improves the daily control of its environmental protection work, and incorporates elements of the "low-carbon, energy saving, green, environment-friendly" ideology into every detail of the Group's operations. The Group is committed to finding new ways to reduce its energy consumption while improving the quality of its products for its customers. During the year under review, the Group has installed two steam flow metres, which were connected to the energy management platform to allow the use of steam in the factories to be monitored on a real-time basis, so as to enhance the Group's energy management efficiency.

The energy consumed by the factories of the PRC Subsidiaries accounted for most of the energy consumed by the PRC Subsidiaries during the year under review. Wasted raw materials and defective products are reused and recycled in the PRC Subsidiaries' daily production. Water consumed by the PRC Subsidiaries is solely supplied by an authorised water supply corporation, and the PRC Subsidiaries have no issue in sourcing water fit for their purpose. The PRC Subsidiaries require their staff to check the water supply pipes and valves regularly to avoid wastage of water resources. During the year under review, the PRC Subsidiaries have invested approximately RMB1.6 million to optimise the efficiency of water supply pipes for the sake of further reduction in water wastage. Together with other measures, the PRC Subsidiaries have reduced water consumption by approximately 2,000 tonnes in total in 2017.

As the products of the Group are wires and cables that are to be installed inside and/or outside buildings and on machinery, only limited packaging materials are needed for delivery of the products to customers. As a result, the Group has not collected any data on the total packaging materials used for its finished products during the year under review.

### The environment and natural resources

The Group's business is not subject to specific environmental laws and regulations as the Group's operations involve direct physical transformation and assembling of already processed raw materials which do not have significant direct impacts on the environment and natural resources. Nevertheless, the Group is committed to operating a business that contributes efforts to environmental care and sustainability. To help promoting environmental awareness among the Group's employees, the Group encourages the use of recycled papers for printing and copying, promotes double-sided printing and copying, sets up recycling bins, and reduces energy consumption by switching off idle lightings, air conditioning and electrical appliances. In addition, the Group has made constant capital investments in energy-efficient machinery to replace existing old machinery so as to boost economic efficiency and energy saving. The Group reviews its environmental practices from time to time and considers implementing further ecofriendly measures, sustainability targets and practices in the operation of the Group's business to embrace the principles of "reduce, recycle and reuse", and to further minimise its impacts on the environment and natural resources.

In 2017, the Group was accredited as one of the first state-level "Green Factories" by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和資訊化部).

## SOCIAL ASPECTS

### Employment and labour practices

The Group is an equal opportunity employer and encourages diversity of employees, regardless of age, gender, marital status and race. The Group is people-focused and believes that employees are one of its most valuable assets and regards human resources as its corporate wealth. The Group recognises the contributions by employees as well as attracts and retains key personnel and talents with appropriate skills, experience and competence which would complement and meet the corporate and business objectives of the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***Employment***

The Group recruits talents in accordance with the principles of openness, equality, competence and competitive selection. The Group's employment practices do not discriminate on the grounds of gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation and national origin. As at 31 December 2017, the Group had a total of 3,548 (2016: 3,609) full-time employees who worked at the PRC Subsidiaries, whereas the overall turnover rate of the PRC Subsidiaries was about 15.9% (2016: 19.07%).

*Breakdown of employees of the PRC Subsidiaries by gender*

| Gender | Number of employees | |
|---|---|---|
| | **31 December 2017** | 31 December 2016 |
| Male | **2,248** | 2,270 |
| Female | **1,300** | 1,339 |
| Total | **3,548** | 3,609 |

*Breakdown of employees of the PRC Subsidiaries by age*

| Age | Number of employees | | Percentage of total workforce | |
|---|---|---|---|---|
| | **31 December 2017** | 31 December 2016 | **31 December 2017** | 31 December 2016 |
| 18~30 | **964** | 1,128 | **27.2%** | 31.3% |
| 31~40 | **779** | 737 | **22.0%** | 20.4% |
| 41~50 | **1,072** | 1,117 | **30.2%** | 31.0% |
| 51 and above | **733** | 627 | **20.6%** | 17.4% |
| Total | **3,548** | 3,609 | **100.0%** | 100.0% |

*Breakdown of employees of the PRC Subsidiaries by location of work*

| Location of work | Number of employees | | Percentage of total workforce | |
|---|---|---|---|---|
| | **31 December 2017** | 31 December 2016 | **31 December 2017** | 31 December 2016 |
| Mainland China | **3,540** | 3,607 | **99.8%** | 99.9% |
| Pakistan | **–** | 2 | **N/A** | 0.1% |
| South Africa | **8** | – | **0.2%** | N/A |
| Total | **3,548** | 3,609 | **100.0%** | 100.0% |

Based on the figures stated above, the male to female percentage ratio within the PRC Subsidiaries as at 31 December 2017 was approximately 63:37 (2016: 63:37). The predominance of males was due to the market practice that a higher proportion of male employees serve as technicians in the workshops of the PRC Subsidiaries. The PRC Subsidiaries have been continuously working on improving the balance of gender for those departments that have a heavier weighting of male employees, for example by using new technology to reduce the physical demands of certain jobs and make them suitable for female employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group values its employees and remunerates them fairly and adequately, in line with the Labour Law of the PRC and other relevant legislations. In the determination of wage and salary levels and promotion of its employees, the Group takes into account such factors as the seniority, relevant experience, results of performance appraisals, education level and professional qualifications of the employee, as well as the nature of the work and duties of the position to be carried out. These decisions are made in line with the industry norms and local conditions and practice. In order to attract and retain talents, the Group offers competitive remuneration, retirement and medical benefits, insurance and leave entitlement which commensurate with the market standards, and the Group regularly reviews the remuneration packages and promotion guidelines of its employees and reports to the Remuneration Committee to make necessary adjustments to conform to the market standards.

The Group has adopted a share award scheme ("Share Award Scheme") to recognise the contributions made by certain employees, executives, officers or directors and to give incentives in order to retain them for the continuing operation and development of the Group and to attract suitable talents for further development of the Group. 35,300,000 ordinary shares of the Company were granted to 4 directors and 17 selected employees in 2016 pursuant to the Share Award Scheme. During the year ended 31 December 2017, 500,000 of these shares were vested and transferred to an employee and 8,325,000 of these shares were forfeited due to certain employees being unable to fulfill the designated requirements and performance targets.

The Group promotes work-life balance and encourages its employees to pursue their personal interests and live a healthy and fulfilling life. The Group offers adequate rest periods and overtime pay to its employees according to the Labour Law of the PRC and all other relevant labour laws and regulations in which the Group operates.

For situations in which the behaviour of an employee results in disciplinary dismissal, or whose performance is consistently below an acceptable level, a range of procedures to terminate his/her employment contract have been established. Terms and conditions for dismissal are outlined in the employment contract of each employee of the Group. In all cases, department heads will consult with the human resources department to ensure that applicable legal requirements are observed before taking any disciplinary action.

The Group has complied with all relevant employment and labour laws and regulations, such as the Labour Law of the PRC, during the year under review.

***Health and safety***

The Group cares about the health and safety of its employees. The PRC Subsidiaries are subject to and have complied with the Labour Law of the PRC, Safety Production Law (安全生產法) of the PRC and other relevant PRC laws and regulations in respect of health and safety of employees during the year under review. The Group encourages direct communications with its employees in respect of occupational health and safety issues. To provide a safe working environment to its employees, the Group has established an all-round occupational safety and health management policy to promote the health and safety awareness of its employees. The Group's management monitors daily operations to ensure the policy has been implemented effectively. Dangerous elements in the work process are monitored at all times so that the production and operation activities are scientific, systematic and safe throughout the whole process.

In addition, the Group has engaged an independent qualified third party to check and review its workplace environment and conditions (including but not limited to the noise level, the temperature in the working environment, the lighting condition and the exposure to harmful materials) to ensure the Group's workshops are harmless to its employees. Upgrades and maintenance of tools, offices and equipment are performed to cope with the needs and demand of its employees. The Group has provided free health check programmes to its employees annually to ensure the employees are healthy physically and mentally. Employees are also provided with medical insurance benefits and are required to attend health awareness training programmes.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A formula for health is "happiness". The Group is aware that a good way of keeping its employees motivated and happy is by providing them with sports and leisure activities. To this end, the Group has set aside funds for its employees' sightseeing and leisure tours. The Group also provides amenity areas and sporting facilities, such as table tennis, snooker and other sporting equipment for its employees to use during work breaks.

The Group was awarded the Certificate of Safety Production Standardisation (安全生產標準化證書) issued by the Wuxi City Safety Production Monitoring Authority (無錫市安全生產監督管理局), and was honoured as a 2017年先進理事單位 ("2017 Advanced Managing Corporate")* by the Quality Management Association of Jiangsu Province (江蘇省品質協會) in 2017.

There were no (2016: nil) work-related fatalities and about 5,822 (2016: 6,961) lost days, representing 0.7% (2016: 0.6%) of total work days due to sickness and work injury in relation to the operations of the PRC Subsidiaries in 2017.

***Development and training***

The Group believes that the growth of its employees is one of the key factors to achieve sustainable business growth. The Group has continued to promote a learning culture and offer structured career development, on-the-job training programmes and an e-learning platform to promote its staff's self-actualisation and enhance its employees' career progression.

In 2016 and 2017, all employees and management of the PRC Subsidiaries have attended different types of training programmes. The following tables summarise the training programmes, mainly internal seminars provided to employees of the PRC Subsidiaries, which covered various job-related hard and soft skills, such as leadership, team building and personal effectiveness.

*Breakdown of trainings for employees of the PRC Subsidiaries by gender of attendees*

| Gender of attendees | Number of attendance | | Number of hours trained | | Average training hours | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Male | **6,778** | 8,492 | **22,672** | 49,071 | **3.3** | 5.8 |
| Female | **3,575** | 4,335 | **10,594** | 22,115 | **3.0** | 5.1 |
| Total | **10,353** | 12,827 | **33,266** | 71,186 | **3.2** | 5.5 |

*Breakdown of trainings for employees of the PRC Subsidiaries by level of attendees*

| Level of attendees | Number of attendance | | Percentage of participants | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Senior management | **33** | 34 | **0.3%** | 0.3% |
| Middle management | **144** | 141 | **1.4%** | 1.1% |
| General staff | **10,176** | 12,652 | **98.3%** | 98.6% |
| Total | **10,353** | 12,827 | **100.0%** | 100.0% |

* *For identification purpose only*

Other than on-the-job trainings and internal seminars and the e-learning platform provided to its employees, the Group also encourages staff participation in external seminars and workshops to keep the employees abreast of changes and updates on different areas, including but not limited to legal, compliance, financial accounting and reporting, and industry technology and practices.

With all-round training, the employees' knowledge and understanding in the business objectives and operations, occupational and management knowledge and skills are aligned and enhanced, which are all conducive to improving the efficiency, productivity and overall reduction of the risks and uncertainties of the Group.

The Group was awarded 2013–2017年度模範職工之家 ("2013–2017 Model Worker's Home")* by 宜興市總工會 ("Yixing Federation of Trade Unions")*.

***Labour standards***

The Group is committed to protecting human rights. The Group complies with all relevant laws and regulations and the requirements of the governing authorities which may have a significant impact on the business of the Group. All the Group's employees are aged over 18 and no child labour has been employed, as it is the Group's policy to perform checks (including employee identity check) at the time of recruitment to prevent and prohibit child labour and forced labour. The Group strives to create an environment of respect, integrity and fairness for its employees. The Group has complied with all relevant laws and regulations in respect of forced labour and child labour in the PRC during the year ended 31 December 2017.

During the year under review, the Group has held 女職工權益保護法律知識競賽 ("Knowledge on Women's Rights and Interests Competition")* to promote the understanding of Law on the Protection of Women's Rights and Interests of the PRC (中華人民共和國婦女權益保障法) and Special Rules on the Labour Protection of Female Employees (女職工勞動保護特別規定) for its female employees.

## Operating practices

As a socially responsible corporate, the Group is committed to complying with all relevant laws and regulations in the wire and cable manufacturing industry.

***Supply chain management***

Supplier relationship is one of the key factors for the Group to achieve sustainable business growth. The Group exercises a high level of scrutiny over the selection of its suppliers and encourages its suppliers to act responsibly and adhere to the Group's ESG standards. The Group has thousands of suppliers, over 90% of which are located in the PRC. The Group has built harmonious relationships with its major suppliers over the years that serve to smooth out its production flow and enhance its productivity. The Group has established procurement control procedures to ensure the quality of the raw materials supplied by its suppliers. The Group has carried out long-term quality monitoring and regular reviews over its major suppliers and subcontractors. The Group encourages its suppliers to take measures to reduce their environmental and social risks, thus moving towards sustainable development. Suppliers of the Group are subject to regular on-site assessment on product quality as well as suitability by the Group. In case of a significant change in the suppliers' qualification or serious quality issue or contradiction between the suppliers' ESG practices and the Group's ESG standards, the Group may remove the suppliers from its supplier list.

* *For identification purpose only*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***Product responsibility***

The Group has thousands of customers mainly in the PRC who have established years of business relationships with the Group. The Group understands product quality is one of the key concerns of its customers. The Group has set up a quality assurance department and relevant policies to produce high quality products that comply with the health and safety standards of the Group. Management overseeing operations of the Group closely monitors the production flow and reviews the quality assurance policy from time to time to ensure high quality products are produced. The Group has also established an after-sales service management policy to control and promote its customers' satisfaction.

The Group views data privacy as a key operating principle. The employees of the Group are required to retain in confidence all information obtained in connection with their employment, including but not limited to, trade secrets, know how, customer information, supplier information and other proprietary information. The Group advertises and labels its products according to the industry practices and standards, as well as all relevant laws and regulations.

To protect intellectual property rights, all the Group's products are produced with the relevant certificates. In 2017, the Group has obtained 394 (2016: 438) patents in China for its products, with 61 (2016: 87) products being designated as "High Technology Products" in Jiangsu Province and 6 (2016: 5) products being awarded as "National Key New Products". The decrease in the number of patents and "High Technology Products" for the year under review was due to the Group's decision of not renewing some old patents after their expiry. The Group has established a policy and worked with governmental authorities to prevent fake products from being produced and to protect the Group's intellectual property rights. The Group has established channels for its customers to file their complaints with respect to the products, to allow the Group to assess the situations and follow up with the appropriate actions of redress, including product repair and product recall. In 2017, none of the products of the Group (2016: 46 batches) was recalled due to health and safety reasons and the Group had received 24 (2016: 125) complaints from its customers, where all such complaints had been resolved through communication, repair and redistribution of the products.

There was no known issue regarding material non-compliance with the relevant laws and regulations that would have any significant impact on the business of the Group in respect of health and safety, advertising, labelling and privacy matters relating to the products of the Group during the year ended 31 December 2017.

The Group was awarded 海關高級認證AEO ("AEO Customs Advanced Certification")* by the Nanjing Customs Department of the PRC (中華人民共和國南京海關), 2017–2019年度江蘇省重點培育和發展的國際知名品牌 ("2017–2019 Jiangsu material cultivating and developing international famous brands")* by the Department of Commerce of Jiangsu Province (江蘇省商務廳), 江蘇省名牌產品証書 ("Jiangsu Famous Brand Certificate")* by 江蘇省品牌戰略推進委員會 ("Jiangsu Brand Strategy Promotion Committee")*, and several prizes in respect of good product quality by its customers such as China Tower Corporation Limited (中國鐵塔股份有限公司), China Construction Eighth Engineering Division. Corp. Ltd (中國建築第八工程局有限公司).

***Anti-corruption***

The Group is committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of the Group's affairs. The Group has a zero-tolerance policy towards behaviour in association with bribery, corruption, extortion, fraud and money laundering in its business operations.

* *For identification purpose only*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group encourages the reporting of suspected business irregularities within the Group and provides reporting channels specifically for this purpose. When suspected wrongdoings, such as breach of duty, abuse of power and receipts of bribes are identified, staff should report to the senior management for investigation and verification, and report to the relevant regulators or to the law enforcement authorities when necessary.

The non-compliance of any relevant laws and regulations in respect of anti-corruption may have a significant impact on the business of the Group. However, the Group has complied with all such relevant laws and regulations, and no legal case against the Group in respect of bribery, extortion, fraud and money laundering has been recorded during the year ended 31 December 2017.

## Community

***Community investment***

The Group is committed to participating in various community events, making donations and providing sponsorships to charitable organisations from time to time, and to the improvement of community well-being and social services where it operates. The Group supports and encourages its employees to actively participate in a wide range of charitable events outside working hours, to raise awareness and concern for the community, and to inspire more people to take part in serving the community. It is the policy of the Group to participate in community services to gain an understanding of the needs of the communities in which it operates, so as to enable the management of the Group to formulate policies and objectives which are in line with the interests of those communities.

***Highlights***

| Beneficiaries | Main Activities |
|---|---|
| Students | • **Education Donations:** The Group provided scholarships amounting to approximately RMB900,000 to students in need and donated books and materials amounting to approximately RMB500,000 to schools in 2017.  <br>• **Internship Programmes & Site Visits:** In 2017, the Group offered 86 internship positions in different departments to students from various colleges and universities, while permanent jobs within the Group had been offered to those students who had potential or talent. The Group also provided site visits to students which allowed the students to communicate directly with the management of the Group for experience sharing. |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Beneficiaries | Main Activities |
| --- | --- |
| |   |
| | • **Employment of Fresh Graduates:** The Group has employed 56 fresh graduates in which there were 40 graduates with tertiary education or above in 2017. |
| Community | • **"Helping the Disabled, Love Jiangnan"** (幫扶助殘 愛在江南): The Group encouraged the employment of the disabled to promote humanity and social equality. |
| |   |
| | • **Established "Sponsorship and Education Fund"** (捐資助學基金): The Group has sponsored over RMB10 million in infrastructure, construction and education aspects, such as green engineering projects, nursing homes and cinemas in recent years. |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Beneficiaries | Main Activities |
|---|---|
| | • **Visit and Support the Needy:** The Group always promotes helping the needy. The management and labour union leaders of the Group visited needy families in local community and provided aid to them during the Chinese New Year in 2017. |
| |   |
| Employees | • **Jiangnan Group "Love Fund" (愛心基金)**: The Group encourages its employees to help the needy and hence has established a "Love Fund". The fund is to help needy employees within the Group and has raised approximately RMB890,000 from the management and employees of the Group in 2017. |
| |  |

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Mr. Chu Hui (儲輝), Chairman and Chief Executive Officer

Mr. Chu Hui ("**Mr. Chu**"), aged 46, was appointed as the Chief Executive Officer on 7 July 2014, an executive Director on 18 July 2013 and the Chairman on 30 May 2016. He has also been the chairman of the Corporate Governance Committee since 30 May 2016. He has over 21 years of experience in the wire and cable industry in the PRC. From May 2005 to December 2014, he was the chairman, an executive director and a general manager of Zhongmei Cable, which is now a wholly owned subsidiary of the Company, and has been responsible for the overall management of production, operation, sales and administration matters in Zhongmei Cable. Mr. Chu has been a director of Extra Fame Group Limited, Jiangnan Cable (HK) Limited and Wuxi Jiangnan Cable, all being wholly owned subsidiaries of the Company, since July 2014. Mr. Chu has been a director of Jiangnan Power Assets Limited and Jiangnan Power Assets (HK) Limited, both being wholly owned subsidiaries of the Company, since September 2015. From June 2003 to November 2004, he was the executive director and general manager of Wuxi Zhongnan Mining Cable Co. Ltd. (無錫中南礦纜有限公司). From November 2001 to May 2003, he was the deputy general manager of Wuxi Jiangnan Wire and Cable Co., Ltd (無錫市江南線纜有限公司) ("Wuxi Jiangnan Wire"). From November 1997 to October 2001, he was the factory director of Shanghai Asahi Cable Factory (上海滬旭電纜廠). From December 1994 to October 1997, he was engaged in the sales and marketing of wires and cables.

Mr. Chu had been the vice-chairman of the 2nd Governing Council of the Jiangsu Province Coal Mining Machinery Industry Association, the vice-chairman of the 2nd National Fountain Professional Committee, and the general committee member (常務理事) of Yixing City Charity Association (宜興市慈善會).

Mr. Chu has obtained several awards, including Outstanding Entrepreneur (優秀企業家) awarded by the people's government of Yixing in 2012, Outstanding Entrepreneur in Coal Mining Machinery Industry (江蘇省煤礦機械工業優秀企業家) by the Coal Mining Machinery Industry of Jiangsu Province (江蘇省煤礦機械工業協會) in 2006, one of the Top Ten Young Entrepreneurs in Wuxi City (無錫市十佳青年企業家) jointly awarded by a number of entities (including Wuxi Municipal Party Committee Organisation Department (中共無錫市委組織部), Wuxi City Economic and Trade Commission (無錫市經濟貿易委員會) and Wuxi City Industry and Commercial Federation (無錫市工商業聯合會)) in 2008, one of the 17th Top Ten Outstanding Young Persons in Wuxi City (第十七屆無錫市十大傑出青年) jointly awarded by a number of entities (including Wuxi Municipal Party Committee Organisation Department (中共無錫市委組織部), Wuxi City Personnel Department (無錫市人事局) and Wuxi City Youth Federation (無錫市青年聯合會)) in 2006 and Outstanding Young Person of Yixing City (宜興市優秀青年) jointly awarded by a number of entities (including Yixing Municipal Party Committee Organisation Department (中共宜興市委組織部), Yixing City Personnel Department (宜興市人事局) and Yixing City Youth Federation (宜興市青年聯合會)) in 2006. Mr. Chu currently serves as a member of the Chinese People's Political Consultative Conference of Yixing City. Mr. Chu also involved in a number of charitable activities and was granted the award of Charity Star of Yixing City (慈善明星) by the Yixing City Party Committee Council (中共宜興市委員會) and the people's government of Yixing in 2007.

Mr. Chu studied in the Southeast University (東南大學) and obtained his master of business administration in 2004. Mr. Chu was qualified as a senior economist (高級經濟師) in 2005 by the Jiangsu Province Personnel Department.

As at the date of this annual report, Mr. Chu is the sole director of each of (i) 無錫光普投資有限公司, which is wholly-owned by Mr. Chu and which wholly-owns Spectrum Investment (HK) Limited ("Spectrum HK"); (ii) Spectrum HK, which wholly-owns Power Heritage Group Limited ("Power Heritage"); and (iii) Power Heritage. Each of 無錫光普投資有限公司, Spectrum HK and Power Heritage is 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.

The spouse of Mr. Chu is a cousin of the spouse of Mr. Jiang Yongwei (an executive Director).

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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

Ms. Xia Yafang ("**Ms. Xia**"), aged 45, was appointed as a Director on 26 January 2011, the executive vice president on 25 February 2012 and an executive Director on 20 April 2012. She is also a director of a number of companies in the Group. She joined the Group in 2004. Ms. Xia is in charge of the Group's overall day to day operations. She was appointed as the chief engineer of Wuxi Jiangnan Cable in August 2011. Ms. Xia has over 22 years of experience in the wire and cable industry in the PRC. From April 2001 to January 2004, she was a director of the technology department and the vice general manager of Wuxi Jiangnan Wire. From March 1996 to March 2001, Ms. Xia was the engineer for cable research technology and the director of crosslinked 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 the 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 a senior engineer in September 2007, both by the Jiangsu Province Personnel Department.

## Mr. Jiang Yongwei (蔣永衛), vice president

Mr. Jiang Yongwei ("**Mr. Jiang**"), aged 51, was appointed as a vice president and a Director on 25 February 2012 and an executive Director on 20 April 2012. He is also a member of the Corporate Governance Committee. He is also a director of a number of companies in the Group. Mr. Jiang joined the Group in February 2004. He is the head of the production department responsible for the Group's production management. He has over 23 years of experience in the wire and cable industry in the PRC. Mr. Jiang has been a director of Wuxi Jiangnan Cable since February 2004. Mr. Jiang served as the vice general manager of Wuxi Jiangnan Wire from August 1997 to February 2004 and was responsible for its overall production. From January 1990 to July 1997, Mr. Jiang was a director of the infrastructure department of Wuxi Jiangnan Wire. Mr. Jiang graduated from the 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 is a cousin of the spouse of Mr. Chu, the Chairman, an executive Director and the chief executive officer of the Company.

## Mr. Hao Minghui (郝名輝), Head of overseas sales

Mr. Hao Minghui ("**Mr. Hao**"), aged 60, was appointed as an executive Director on 1 December 2012. He is also a member of the Corporate Governance Committee. Mr. Hao is responsible for overseas sales of the Group. He has over 22 years of experience in the wire and cable industry in the PRC. Mr. Hao completed the advanced study of a business management course offered by the Business Management Research Centre of the Renmin University of China in August 2002. In December 2003, Mr. Hao was accredited as a senior member of the Chinese Enterprise Operation and Management Talent Bank by National Talent Service Centre under the Ministry of Human Resources. Mr. Hao has also obtained the qualification certificate of international professional manager issued by the China International Professional Manager Association and China International Talent Development Centre.

From March 1990 to July 1991, Mr. Hao worked as the vice factory director of a cable factory in the PRC, and was the vice-general manager of a company in the PRC engaging in the manufacture of wires and cables from August 1991 to October 1999. During the period from November 1999 to November 2001, Mr. Hao was the vice-general manager and the sales director of a joint venture enterprise in the PRC which was engaged in the wire and cable industry and he had been the general manager of that enterprise from December 2002 to December 2005, the business chief executive in respect of electricity medium and high voltage cable and high pressure accessories in Greater China and certain Asian countries and regions and the business chief executive of a cable accessories company of that enterprise from June 2008 to December 2010.

From January 2011 to September 2012, Mr. Hao worked as the vice-chief engineer of Wuxi Jiangnan Cable. From September 2012 to December 2014, Mr. Hao was the general manager of Wuxi New Suneng, a wholly-owned subsidiary of the Company. Since January 2015, Mr. Hao has been the vice-general manager of Wuxi Jiangnan Cable.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. He Zhisong (何植松)

Mr. He Zhisong ("**Mr. He**"), aged 48, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also the chairman of each of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee. Mr. He is a partner of Zhong Lun 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 the Southwest University of Political Science and Law and the Renmin University of China in July 1992 and July 1999, respectively.

### Mr. Yang Rongkai (楊榮凱)

Mr. Yang Rongkai ("**Mr. Yang**"), aged 58, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. 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 of the Cable Group of the State Grid Electric Power Research Institute since April 2011. Since 2013, he has been the deputy director of the Research and Development Centre of Intelligent Electrical Equipment Division. 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 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.

### Mr. Poon Yick Pang Philip (潘翼鵬)

Mr. Poon Yick Pang Philip ("**Mr. Poon**"), aged 48, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also the chairman of the Audit Committee, and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Poon has over 20 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 Trigiant Group Limited (stock code: 1300), a company listed on the Main Board of the Stock Exchange, and China Fordoo Holdings Limited (stock code: 2399), a company listed on the Main Board of the Stock Exchange, with effect from 23 August 2011 and 16 August 2016, respectively. Mr. Poon had taken up senior finance positions in companies listed in Hong Kong and the United States of America. 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) and Sun Hung Kai Properties Limited (stock code: 16), which are both 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.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## COMMITTEES

The Company has four Board committees. The table below provides membership information of these committees in which each Board member served as at the date of this annual report:

| Board committee Director | Audit Committee | Remuneration Committee | Nomination Committee | Corporate Governance Committee |
|---|---|---|---|---|
| Chu Hui | | | | C |
| Jiang Yongwei | | | | M |
| Hao Minghui | | | | M |
| He Zhisong | 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

## SENIOR MANAGEMENT

**Mr. Chan Man Kiu (陳文喬)** ("**Mr. Chan**"), aged 56, is the chief financial officer of the Company and the Company Secretary. He is also a director of a number of companies in the Group. Mr. Chan joined the Group in January 2011. Mr. Chan has over 30 years of experience in the field of finance and operations. From June 2007 to December 2010, Mr. Chan served as the 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. Cao Shunkang (曹順康)** ("**Mr. Cao**"), aged 47, is the financial controller of the Group in China. Mr. Cao joined Zhongmei Cable, a subsidiary of the Group in 2004. He was appointed as the financial controller of Wuxi Jiangnan Cable in September 2014 and responsible for account and financial matters of the Group's operations in China. From July 1997 to May 2003, Mr. Cao was an accountant in Yixing Xin Fang Supply and Marketing Cooperation. He has rich experience in statistics, accounting, office administration and operation controls. Mr. Cao is a qualified accountant in China. Mr. Cao studied management and economics and graduated from the Jiangnan University in 1991. Mr. Cao furthered his study in finance and graduated from the China University of Geosciences in 2013.

# DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company and its subsidiaries now composing the Group are principally engaged in the manufacture and trading of wires and cables for power transmission, distribution systems and electrical equipment. The activities of its subsidiaries are set out in Note 38 of Notes to the Consolidated Financial Statements.

The details of business review are set out in the "Management Discussion and Analysis" ("MD&A") in this annual report on pages 15 to 16. A discussion of the future developments of the Group's business is set out in the "Chairman's Statement" and in the MD&A in this annual report on pages 11 to 12 and pages 26 to 27 respectively. An analysis of the Group's performance is set out on pages 16 to 22. A discussion of the Group's principal risks and uncertainties is set out in the MD&A in this annual report on pages 25 to 26.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group values the importance of protecting the environment in its process of operations. The Group has complied with the laws and regulations regarding environmental protection and adopted effective measures to achieve efficient use of resources and energy saving. Green initiatives and measures have been adopted in the Group's operations. More details are set out in the section headed "Environmental aspects" in the ESG Report in this annual report on pages 41 to 43.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group has established compliance and risk management policies and procedures, and its senior management has been delegated with the responsibility to monitor the Group's compliance with all significant legal and regulatory requirements. These compliance and risk management policies and procedures are reviewed regularly. As far as the Company is aware, it has complied with the relevant laws and regulations, such as the Law of the PRC on Enterprise Income Tax, Company Law and Labour Law of the PRC, that have a significant impact on the business and operations of the Group in material respects during the year under review.

## RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining good relationships with its stakeholders and considers it a key element to its sustainable business growth.

### Employees

The Group has always been people-oriented and has attached great importance to its human resources management. The Group attracts talents through a fair recruitment policy and provides employees with training opportunities, good career development prospects and growth opportunities. In addition, the Group offers attractive remuneration packages to its employees. Some employees are granted shares of the Company pursuant to the Share Award Scheme that the Company adopted on 9 September 2015 in recognition of their contribution to the Group. The Group also values its employees' physical and mental developments.

### Customers

The Group is committed to offering its customers quality products to the best of its ability. During the year under review, the Group maintained effective communications with its customers through various channels, such as telecommunication through salespersons and interviews with key customers. The Group believes that its customers' feedback would help the Group to identify areas of improvement and hence to achieve excellence. The Group has established over ten years of business relationships with thousands of customers, most of which are well-known companies such as SGCC, CSG and the five power generation groups of China. In particular, SGCC is one of the Group's major customers. The credit terms granted to the Group's major customers are in line with those granted to the Group's other customers. The Group is keeping up its efforts in expanding its markets overseas and enlarging its customer pool. For a detailed discussion of the credit terms granted to the Group's customers, and the recoverability and the concentration of credit risk of the Group's trade receivables, please refer to Note 20 of Notes to the Consolidated Financial Statements and Note 2 of the section headed "Principal Risks and Uncertainities" of the MD&A in this annual report respectively.

### Suppliers

The Group strongly believes that maintaining harmonious relationships with its major suppliers is essential to the Group's business performance and growth because suppliers can exercise direct influence over the quality of the Group's products and customer satisfaction. The Group adopts a comprehensive supplier management policy in respect of its supplier selection procedures and its quality control system regarding the products and performance of potential and existing suppliers. The Group is committed to establishing close and long-term cooperation relationships with its business partners.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 72 and the state of affairs of the Group as at 31 December 2017 are set out in the consolidated statement of financial position on page 73.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: HK3.1 cents per share) to the shareholders of the Company.

### Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 74.

The Directors consider that the Company's reserves available for distribution to shareholders comprise the share premium, the special reserve and the accumulated profits which amounted to approximately RMB4,822,289,000 (2016: RMB4,844,526,000) in aggregate as at 31 December 2017. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

# DIRECTORS' REPORT

## USE OF NET PROCEEDS RECEIVED FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$448.1 million (or equivalent to approximately RMB370.0 million), which were intended to be applied in the manner consistent with that as disclosed in the prospectus of the Company dated 10 April 2012, had mostly been utilised. As at the date of this annual report, approximately HK$115.0 million in aggregate of the net proceeds allocated to set up production facilities for aluminium alloy and double capacity conductors had been fully utilised, approximately HK$97.0 million in aggregate of the net proceeds allocated to set up a manufacturing facility in South Africa had been fully utilised, approximately HK$74.0 million of the net proceeds allocated for the upgrade and expansion of existing production facilities and enhancement of research and development capabilities had been fully utilised, approximately HK$14.1 million of the net proceeds allocated for acquisitions had been fully utilised in the acquisition of Jiangsu Zengyang Investment Company Limited in 2013, and out of approximately HK$148.0 million of the net proceeds which was allocated for the expansion of the Group's production facilities for high and extra-high voltage cables, only approximately HK$82.2 million had been utilised.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 128.

An analysis of the Group's results by segment for the year ended 31 December 2017 is set out in Note 5 of Notes to the Consolidated Financial Statements.

## SHARE CAPITAL

Details of movements during the year ended 31 December 2017 in the share capital of the Company are set out in Note 27 of Notes to the Consolidated Financial Statements.

## SHARE PREMIUM AND RESERVES

Details of movements during the year ended 31 December 2017 in the share premium and reserves of the Group are set out in the consolidated statement of changes in equity on page 74.

## DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report are:

### Chairman, Chief Executive Officer and Executive Director

Mr. Chu Hui

### Executive Directors

Ms. Xia Yafang
Mr. Jiang Yongwei
Mr. Hao Minghui

### Independent Non-executive Directors

Mr. He Zhisong
Mr. Yang Rongkai
Mr. Poon Yick Pang Philip

In accordance with Article 84(1) of the Company's articles of association, each of Ms. Xia Yafang, Mr. Hao Minghui and Mr. He Zhisong shall retire by rotation at the AGM, and being eligible, offer himself/herself, for re-election.

The Directors' biographical information is set out on pages 52 to 55.

Information regarding the Directors' emoluments is set out in Note 10 of Notes to the Consolidated 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 Listing Rules. 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 March 2018, save and except for each of Mr. Hao Minghui ("Mr. Hao") and Mr. Chu Hui ("Mr. Chu") who has separately entered into a service contract and a supplementary contract with the Company, pursuant to which each of Mr. Hao and Mr. Chu was appointed as an executive Director for a fixed term from 20 April 2015 to 29 May 2018 and from 18 July 2015 to 31 December 2020 respectively. Each of the independent non-executive Directors has been re-appointed for a fixed term of three years from 1 March 2018 to 28 February 2021.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2017, 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 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, were as follows:

### Long positions in the issued shares of the Company

| Name of Directors | Capacity/Nature of interest | Number of ordinary shares held | Approximate percentage of interest (Note 1) |
|---|---|---|---|
| Mr. Chu Hui | Interest of controlled corporations | 1,258,838,000 (Note 2) | 30.86% |
| | Beneficial owner | 168,786,000 (Note 3) | 4.14% |
| Ms. Xia Yafang | Beneficial owner | 1,612,000 (Note 4) | 0.04% |
| | Interest of spouse | 1,500,000 (Note 5) | 0.04% |
| Mr. Hao Minghui | Beneficial owner | 1,500,000 (Note 6) | 0.04% |
| Mr. Jiang Yongwei | Beneficial owner | 1,500,000 (Note 7) | 0.04% |

*Notes:*

(1) The total number of ordinary shares of the Company in issue as at 31 December 2017 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.

# DIRECTORS' REPORT

(2) These shares were held by Power Heritage, a company wholly-owned by Spectrum HK, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui. Mr. Chu Hui is deemed to be interested in the shares held by Power Heritage by virtue of the SFO.

(3) These shares represent (i) 167,786,000 shares held by Mr. Chu Hui; and (ii) 1,000,000 shares awarded to him pursuant to the share award scheme ("Scheme") of the Company which are yet to be vested.

(4) These shares represent (i) 612,000 shares held by Ms. Xia Yafang; and (ii) 1,000,000 shares awarded to her pursuant to the Scheme which are yet to be vested.

(5) These shares represent (i) 500,000 shares held by Mr. Han Wei, who is the spouse of Ms. Xia Yafang; and (ii) 1,000,000 shares awarded to him pursuant to the Scheme which are yet to be vested. Under the SFO, Ms. Xia Yafang is deemed to be interested in all the shares in which Mr. Han Wei is interested.

(6) These shares represent (i) 500,000 shares held by Mr. Hao Minghui; and (ii) 1,000,000 shares awarded to him pursuant to the Scheme which are yet to be vested.

(7) These shares represent (i) 500,000 shares held by Mr. Jiang Yongwei; and (ii) 1,000,000 shares awarded to him pursuant to the Scheme which are yet to be vested.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

### Long positions in the issued shares of the Company

| Name of shareholders | Capacity/Nature of interest | Number of ordinary shares held | Approximate percentage of interest (Note 1) |
|---|---|---|---|
| ***Substantial shareholders*** | | | |
| Ms. Rui Yiyun | Interest of spouse | 1,427,624,000 (Note 2) | 35.00% |
| Power Heritage | Beneficial owner | 1,258,838,000 | 30.86% |
| 無錫光普投資有限公司 | Interest of controlled corporations | 1,258,838,000 (Note 3) | 30.86% |
| ***Other persons*** | | | |
| Mr. Rui Yiping | Beneficial owner | 348,000,000 | 8.53% |
| Ms. Pan Lanfen | Interest of spouse | 348,000,000 (Note 4) | 8.53% |

*Notes:*

(1) The total number of ordinary shares of the Company in issue as at 31 December 2017 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.

(2) Under the SFO, Ms. Rui Yiyun, the spouse of Mr. Chu Hui, is deemed to be interested in all the shares in which Mr. Chu Hui is interested.

(3) These shares were held by Power Heritage, a company wholly-owned by Spectrum HK, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui.

(4) Under the SFO, Ms. Pan Lanfen, the spouse of Mr. Rui Yiping is deemed to be interested in all the shares in which Mr. Rui Yiping is interested.

Save as disclosed above, as at 31 December 2017, the Company has not been notified of any persons who had any interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

As at 31 December 2017, Mr. Chu Hui was a director of each of Power Heritage, Spectrum HK and 無錫光普投資有限公司. Save as disclosed above, as at 31 December 2017, none of the Directors was a director or an employee of a company which had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2017, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are subject to the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

The Board confirms that the related party transactions as disclosed in Note 34 of Notes to the Consolidated Financial Statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

## 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 direct or indirect, subsisted at the end of the year or at any time during the year ended 31 December 2017.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2017 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 2017.

## NON-COMPETING UNDERTAKING

Power Heritage (the controlling shareholder of the Company) ("Covenanter"), Mr. Rui Fubin (the former Chairman and a former executive Director) and Mr. Rui Yiping (a former executive Director and an existing shareholder of the Company) have entered into the deed of non-competition ("Deed of Non-competition") in favour of the Group dated 25 February 2012, pursuant to which, each of them has undertaken not to directly or indirectly engage in the business which might compete with the Group ("Restricted Business").

The Company has adopted the following measures to monitor that the Deed of Non-competition has been complied with during the year ended 31 December 2017:

(a) the Covenanter has advised the Company that during the year under review, it has not been offered of or become aware of any projects or new business opportunities which relates to the Restricted Business;

(b) the Company has requested the Covenanter to inform the Board of any possible non-compliance with the Deed of Non-competition from time to time as and when it arises and agree to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking. For the year under review, the Covenanter has complied with the Deed of Non-competition and as such no information has been provided; and

(c) the independent non-executive Directors have enquired, assessed and reviewed the compliance with the non-competition undertaking by the Covenanter.

After 31 December 2017, the Covenanter has provided a written annual declaration on compliance with its non-competition undertaking for the year under review to the Company.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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 during the year ended 31 December 2017 and up to the date of this report.

## EMOLUMENT POLICY

The Group's emolument policy is based on the position, duties and performance of its employees. Emoluments or remuneration may include salary, overtime allowance, bonus and various subsidies.

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

### Share award scheme

The Board adopted the Share Award Scheme on 9 September 2015 ("Adoption Date"). The Share Award Scheme does not constitute a share option scheme for the purpose of Chapter 17 of the Listing Rules. The principal terms of the Share Award Scheme are outlined below.

***Purposes***

The purposes of the Share Award Scheme are (i) to recognise the contributions by the Group's employees, executives, officers or directors at any time during the period beginning with the Adoption Date and ending on the Termination Date (as defined below) and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

***Operation of the Share Award Scheme***

The Share Award Scheme is administered by the Board and Bank of Communications Trustee Limited ("Trustee") of the trust ("Trust") constituted by the trust deed ("Trust Deed") pursuant to which the Share Award Scheme was established, in accordance with the rules of the Share Award Scheme and the Trust Deed.

Pursuant to the terms and conditions of the Share Award Scheme, the Board may from time to time instruct the Trustee to purchase ordinary shares of the Company ("Shares"). The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's resources for the purchase of Shares at the prevailing market price according to the instructions of the Board. The Trustee shall purchase from the market the relevant number of Shares awarded and shall hold such Shares until they are vested in accordance with the terms and conditions of the Share Award Scheme. The Shares so purchased and the remaining balance of any residual cash shall form part of the trust fund under the Trust ("Trust Fund").

Subject to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion select any employee of the Group (other than any employee who is a resident in a place where the award of the awarded shares and/or the vesting and transfer of the awarded shares pursuant to the terms of the Share Award Scheme are not permitted under the laws and regulations of such place or where in the view of the Board or the Trustee (as the case may be) compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such employee ("Excluded Employee")) for participation in the Share Award Scheme as a selected employee ("Selected Employee"), and grant such number of awarded shares to any Selected Employee at a nominal consideration of HK$0.01 per awarded share to be paid on vesting and subject to such terms and conditions as it may determine in its absolute discretion.

The Board is entitled to impose any conditions ("Performance Conditions") as it deems appropriate in its absolute discretion with respect to the vesting of the awarded shares on the Selected Employee, and shall inform the Trustee and such Selected Employee the Performance Conditions of the award and the awarded shares. The Performance Conditions may be different for different employees.

Where any grant of awarded shares is proposed to be made to any Selected Employee who is a Director (including any independent non-executive Director), such grant must first be approved by all the members of the Remuneration Committee, or in the case where the grant is proposed to be made to any member of the Remuneration Committee, by all of the other members of the Remuneration Committee.

Where any grant of awarded shares is proposed to be made to any person who is a connected person of the Company within the meaning of the Listing Rules, the Company shall comply with such provisions of the Listing Rules as may be applicable unless otherwise exempted under the Listing Rules.

Prior to the vesting date, any award made under the rules of the Share Award Scheme shall be personal to the Selected Employees to whom it is made and shall not be assignable and no Selected Employee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the awarded shares referable to him/her pursuant to such award.

***Restrictions***

No instructions to acquire any Shares shall be given to the Trustee under the Share Award Scheme when dealings in the Shares are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

The Board shall not make any further award of awarded shares which will result in the nominal value of the Shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum nominal value of the Shares which may be awarded to a Selected Employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

***Vesting of Awarded Shares***

Subject to the terms and conditions of the Share Award Scheme and the fulfillment of all relevant vesting conditions, the awarded shares and the related income derived therefrom are subject to a vesting scale in tranches of 25% each in accordance with the vesting schedule which makes reference to the anniversary date of the first vesting date. Vesting of the Shares will be conditional on the Selected Employee remaining as an employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee.

An award shall automatically lapse when a Selected Employee ceases to be an employee of the Group or an order of winding up of the Company is made or a notice is duly given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering a resolution for the voluntary winding up, save that in the case when a Selected Employee dies, or retires at his/her normal retirement age or earlier by agreement prior to or on the vesting date, all the awarded shares and the related income shall be deemed to be vested on the date immediately prior to his/her death or retirement.

In the event that (i) a Selected Employee is found to be an Excluded Employee; or (ii) a Selected Employee fails to return duly executed transfer documents prescribed by the Trustee for the relevant Shares awarded and the related income within the stipulated period, the relevant part of an award made to such Selected Employee shall automatically lapse forthwith and the relevant Shares awarded and the related income shall not vest on the relevant vesting date but shall form part of the Trust Fund for the purposes of the Share Award Scheme.

If there occurs an event of change in control of the Company, whether by way of offer, merger, scheme of arrangement or otherwise prior to the vesting date, all the awarded shares and the related income shall immediately vest in the Selected Employee on the date when such change in control event becomes or is declared unconditional or in the case of a scheme of arrangement on the record date for determining entitlements under such scheme and such date shall be deemed the vesting date.

Where the awarded shares are not vested in accordance with the terms and conditions of the Share Award Scheme, those awarded shares shall form part of the Trust Fund.

***Termination***

The Scheme shall terminate on the earlier of the 10th anniversary date of the Adoption Date or such date of early termination as determined by the Board by a resolution of the Board provided that such termination shall not affect any subsisting rights of the Selected Employees ("Termination Date").

Upon termination, no further grant of awarded shares may be made under the Share Award Scheme. All awarded shares and the related income derived therefrom shall become vested on the Selected Employees so referable on the Termination Date, subject to the receipt by the Trustee of the transfer documents duly executed by the Selected Employees within the stipulated period. The Trustee shall dispose of the Shares (except for any awarded share subject to vesting on the Selected Employees) remaining in the Trust Fund within the stipulated period and the net proceeds of such sale together with such other funds and properties remaining in the Trust Fund (after making appropriate deductions in respect of all disposal costs, liabilities and expenses) shall be remitted to the Company forthwith.

During the year ended 31 December 2017, 1,500,000 (year ended 31 December 2016: 33,456,000) Shares were acquired by the Trustee at a total consideration of approximately HK$1,033,000 (approximately RMB901,000) (year ended 31 December 2016: HK$39,935,000 (approximately RMB33,515,000)).

During the year ended 31 December 2017, no Shares were granted to any Selected Employees pursuant to the Share Award Scheme and 500,000 Shares (2016: 8,825,000 Shares) were vested to certain Selected Employees for the Shares granted on 28 January 2016 pursuant to the Share Award Scheme.

## RETIREMENT BENEFIT SCHEME

With effect from 1 May 2011, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all its 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. Contributions to the MPF Scheme made by the Group were in accordance with the statutory requirement prescribed by the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (i.e. at least 5% of the employee's monthly relevant income or HK$1,500 where the employee's monthly relevant income exceeds HK$30,000 with effect from 1 June 2014). The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. During the year ended 31 December 2017, the Group made contribution to the MPF Scheme amounting to approximately HK$81,200.

No forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The Group also makes contribution to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance according to the Social Insurance Law in the PRC. The contribution rates of the Group are based on the local regulations of the social insurance scheme in Yixing which is 8% for basic pension insurance, 9% for basic medical insurance, 1% for unemployment insurance, 2% for work-related injury insurance and 0.5% for maternity insurance respectively, and the contribution was based on the average salary of the workers in Yixing. During the year ended 31 December 2017, the Group made contributions in accordance with the Social Insurance Law in the PRC amounting to approximately RMB40.3 million.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year under review. The Company has also taken out and maintained appropriate insurance cover to indemnify the Directors for liabilities that may arise out of corporate activities in the Group. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2017, no claims were made against the Directors.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

## SUFFICIENCY OF 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 annual report, there is sufficient public float of the Company's issued shares as required under the Listing Rules.

## CHARITABLE DONATIONS

Donations made by the Group to external approved charitable organisations during the year ended 31 December 2017 amounted to approximately RMB400,000 (2016: RMB805,000).

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the Group's largest customer accounted for approximately 8.7% (year ended 31 December 2016: 12.5%) of the Group's revenue and the five largest customers of the Group accounted for approximately 14.5% (year ended 31 December 2016: 21.0%) of the Group's revenue. For the year ended 31 December 2017, the Group's largest supplier accounted for approximately 37.1% (year ended 31 December 2016: 42.8%) of the Group's purchases and the five largest suppliers of the Group accounted for approximately 71.7% (year ended 31 December 2016: 70.4%) of the Group's purchases for the year under review.

At no time during the year ended 31 December 2017 did a Director, a close associate of a Director or a shareholder whom 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 SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2017.

## AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2017. A resolution will be proposed for approval by shareholders at the AGM to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Chu Hui**
*Chairman and Chief Executive Officer*
Hong Kong, 29 March 2018

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.** 德勤

**TO THE SHAREHOLDERS OF JIANGNAN GROUP LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Jiangnan Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of trade receivables*** | |
| We identified the valuation of trade receivables as a key audit matter due to its significance to the consolidated financial statements as a whole and the uncertainty on significant estimation involved in the Group management's assessment on the recoverability of trade receivables. In determining the recoverability and allowance for bad and doubtful debts, the management considers the credit history, including default or delay in payments, settlement history and aging analysis of the trade receivables.<br><br>As disclosed in Note 20 to the consolidated financial statements, the carrying amount of trade receivables of the Group is RMB4,127,898,000 net of allowance for bad and doubtful debts of RMB253,660,000 at 31 December 2017. | Our procedures in relation to assessing the appropriateness of the management's valuation of trade receivables included:<br><br>• Obtaining an understanding of the management's credit risk assessment and evaluating the management's process in assessing the recoverable amounts of trade receivables;<br><br>• Assessing the reasonableness of allowance for bad and doubtful debts with reference to the credit history, including default or delay in payments, settlement history and aging analysis of the trade receivables; and<br><br>• Testing, on sample basis, the accuracy of the aging analysis of the relevant debts and the details of their subsequent settlements. |

# INDEPENDENT AUDITOR'S REPORT

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of goodwill*** | |
| We identified the impairment assessment of goodwill as a key audit matter due to the uncertainty on significant estimation that are required from the management in assessing the impairment of goodwill.<br><br>Determining the amount of impairment for goodwill requires an estimation of the recoverable amount, which is the value in use of the cash-generating units to which goodwill has been allocated. The value in use is determined based on the cash flow forecast for the group of cash generating units and requires the estimation of key assumptions, including suitable discount rates, growth rates and gross margin in order to calculate the present value. Impairment of goodwill should be assessed by comparing the recoverable amount of cash-generating units to which the goodwill is allocated and the carrying value of the asset at the end of the reporting period.<br><br>As disclosed in Note 16 to the consolidated financial statements, the carrying amount of goodwill of the Group is RMB109,606,000 at 31 December 2017. Management of the Group determines that there is no impairment of goodwill. | Our procedures in relation to evaluating the management's impairment assessment of goodwill included:<br><br>• Understanding the management's process relating to the preparation of the cash flow forecasts and impairment assessment;<br><br>• Evaluating the reasonableness of the cash flow forecasts by comparing the historical financial forecast against actual performance; and<br><br>• Analysing the reasonableness of the assumptions made by the management in determining the value in use of the cash-generating units to which the goodwill is allocated, including suitable discount rates, growth rates and gross margin by the management. |
| ***Write-down of inventories*** | |
| We identified the write-down of inventories as a key audit matter due to the significance of the amount to the consolidated financial statements as a whole.<br><br>Due to the changes in market requirements in the current year, the Group had undertaken a product quality assessment exercise to identify affected inventories which were to be disassembled. The difference between the carrying amounts of affected inventories being disassembled and the respective estimated net realisable values was recognised as write-down of inventories included under other losses in the consolidated statement of profit or loss.<br><br>As disclosed in Note 7 to the consolidated financial statements, a write-down of inventories of RMB382,245,000 is recognised during the year ended 31 December 2017. | Our procedures in relation to evaluating the write-down of inventories included:<br><br>• Obtaining an understanding of the management process in the product quality assessment and evaluating their assessment in inspecting and identifying the affected inventories;<br><br>• Testing, on sample basis, the carrying amount of the affected inventories by checking the inventory records and the corresponding costs of production of inventories;<br><br>• Testing, on sample basis, the amount of respective estimated net realisable values of affected inventories after disassembling with reference to the value of materials that can be recycled; and<br><br>• Recalculating the amount of write-down of inventories. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Au Mei Yin.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | *Notes* | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| Turnover | *5* | **11,374,969** | 9,111,232 |
| Cost of goods sold | | **(10,051,100)** | (7,753,184) |
| Gross profit | | **1,323,869** | 1,358,048 |
| Other income | *6* | **57,099** | 84,925 |
| Selling and distribution costs | | **(276,756)** | (219,064) |
| Administrative expenses | | **(242,258)** | (234,598) |
| Research and development costs | | **(35,387)** | (32,205) |
| Other losses | *7* | **(430,816)** | (68,540) |
| Share of results of associates | | **1,324** | (12,127) |
| Finance costs | *8* | **(251,913)** | (221,635) |
| Profit before taxation | *9* | **145,162** | 654,804 |
| Taxation | *11* | **(41,250)** | (124,930) |
| Profit for the year | | **103,912** | 529,874 |
| Other comprehensive income | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising from translation of a foreign operation | | **1,352** | 1,523 |
| Total comprehensive income for the year | | **105,264** | 531,397 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **103,912** | 531,322 |
| Non-controlling interest | | **–** | (1,448) |
| | | **103,912** | 529,874 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **105,264** | 532,845 |
| Non-controlling interest | | **–** | (1,448) |
| | | **105,264** | 531,397 |
| Earnings per share | *13* | | |
| — Basic | | **RMB2.57 cents** | RMB13.15 cents |
| — Diluted | | **RMB2.57 cents** | RMB13.12 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **865,430** | 843,708 |
| Land use rights | 15 | **302,932** | 258,516 |
| Deposits paid for acquisition of property, plant and equipment | | **18,539** | 8,998 |
| Goodwill | 16 | **109,606** | 109,606 |
| Interests in associates | 17 | **3,111** | 3,234 |
| Loan to an associate | 17 | **63,756** | 26,018 |
| Available-for-sale investment | 18 | **7,090** | 7,090 |
| Deferred tax assets | 26 | **3,301** | 3,890 |
| | | **1,373,765** | 1,261,060 |
| Current assets | | | |
| Inventories | 19 | **4,002,379** | 3,809,255 |
| Trade and other receivables | 20 | **4,850,751** | 3,797,387 |
| Pledged bank deposits | 21 | **1,727,213** | 1,425,454 |
| Bank balances and cash | 21 | **1,479,759** | 2,172,465 |
| | | **12,060,102** | 11,204,561 |
| Current liabilities | | | |
| Trade and other payables | 22 | **4,656,385** | 3,422,206 |
| Amounts due to directors | 23 | **5,236** | 5,798 |
| Bank borrowings — due within one year | 24 | **3,332,080** | 3,565,361 |
| Taxation payable | | **79,118** | 103,235 |
| | | **8,072,819** | 7,096,600 |
| Net current assets | | **3,987,283** | 4,107,961 |
| Total assets less current liabilities | | **5,361,048** | 5,369,021 |
| Non-current liabilities | | | |
| Government grants | 25 | **741** | 3,001 |
| Deferred tax liabilities | 26 | **69,300** | 68,928 |
| | | **70,041** | 71,929 |
| Net assets | | **5,291,007** | 5,297,092 |
| Capital and reserves | | | |
| Share capital | 27 | **32,951** | 32,951 |
| Reserves | | **5,257,504** | 5,263,589 |
| Equity attributable to owners of the Company | | **5,290,455** | 5,296,540 |
| Non-controlling interest | | **552** | 552 |
| Total equity | | **5,291,007** | 5,297,092 |

The consolidated financial statements on pages 72 to 127 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

**Chu Hui**
*DIRECTOR*

**Xia Yafang**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 *(Note a)* | Warrant reserve RMB'000 | Shares held for share award scheme RMB'000 *(Note 28)* | Employee share-based compensation reserve RMB'000 *(Note 28)* | Non-distributable reserve RMB'000 *(Note b)* | Statutory reserve RMB'000 *(Note c)* | Translation reserve RMB'000 | Accumulated profits RMB'000 | Sub-total RMB'000 | Non-controlling interest RMB'000 | Total RMB'000 |
| At 1 January 2016 | 32,951 | 1,983,889 | 148,696 | 960 | (20,374) | – | 77,351 | 341,203 | (29,923) | 2,361,172 | 4,895,925 | – | 4,895,925 |
| Exchange differences arising from translation of a foreign operation | – | – | – | – | – | – | – | – | 1,523 | – | 1,523 | – | 1,523 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | 531,322 | 531,322 | (1,448) | 529,874 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | – | – | 1,523 | 531,322 | 532,845 | (1,448) | 531,397 |
| Capital contributed by non-controlling interest | – | – | – | – | – | – | – | – | – | – | – | 2,000 | 2,000 |
| Expiration of warrants | – | – | – | (960) | – | – | – | – | – | 960 | – | – | – |
| Recognition of equity-settled share-based payments | – | – | – | – | – | 10,767 | – | – | – | – | 10,767 | – | 10,767 |
| Shares vested under share award scheme | – | – | – | – | 12,525 | (7,839) | – | – | – | (4,686) | – | – | – |
| Purchase of shares under share award scheme | – | – | – | – | (33,515) | – | – | – | – | – | (33,515) | – | (33,515) |
| Dividends recognised as distribution *(Note 12)* | – | – | – | – | – | – | – | – | – | (109,482) | (109,482) | – | (109,482) |
| Transfers | – | – | – | – | – | – | – | 67,345 | – | (67,345) | – | – | – |
| At 31 December 2016 | 32,951 | 1,983,889 | 148,696 | – | (41,364) | 2,928 | 77,351 | 408,548 | (28,400) | 2,711,941 | 5,296,540 | 552 | 5,297,092 |
| Exchange differences arising from translation of a foreign operation | – | – | – | – | – | – | – | – | 1,352 | – | 1,352 | – | 1,352 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 103,912 | 103,912 | - | 103,912 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | – | 1,352 | 103,912 | 105,264 | – | 105,264 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | 188 | – | – | – | – | 188 | – | 188 |
| Shares vested under share award scheme | – | – | – | – | 684 | (330) | – | – | – | (354) | – | – | – |
| Purchase of shares under share award scheme | – | – | – | – | (901) | – | – | – | – | – | (901) | – | (901) |
| Dividends recognised as distribution *(Note 12)* | – | – | – | – | – | – | – | – | – | (110,636) | (110,636) | – | (110,636) |
| Transfers | – | – | – | – | – | – | – | 15,159 | – | (15,159) | – | – | – |
| At 31 December 2017 | 32,951 | 1,983,889 | 148,696 | – | (41,581) | 2,786 | 77,351 | 423,707 | (27,048) | 2,689,704 | 5,290,455 | 552 | 5,291,007 |

*Notes:*

(a) The special reserve represents the difference between the nominal value of the shares of the Company issued in exchange for the entire equity interest in Extra Fame Group Limited pursuant to a group reorganisation in 2012.

(b) The non-distributable reserve represents capitalisation of accumulated profits of Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) ("Wuxi Jiangnan Cable") for capital re-investment in Wuxi 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 subsidiaries of the Group are 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 subsidiaries 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.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Operating activities | | |
| Profit before taxation | **145,162** | 654,804 |
| Adjustments for: | | |
| Interest income | **(40,669)** | (61,486) |
| Finance costs | **251,913** | 221,635 |
| Depreciation of property, plant and equipment | **91,670** | 80,334 |
| Loss on disposal of property, plant and equipment | **602** | 3,514 |
| Write-down of inventories | **382,245** | – |
| Operating lease rentals in respect of land use rights | **7,449** | 6,871 |
| Release of government grants | **(2,260)** | (3,593) |
| Allowance for bad and doubtful debts | **47,969** | 65,026 |
| Share of results of associates | **(1,324)** | 12,127 |
| Recognition of equity-settled share-based payments | **188** | 10,767 |
| Operating cash flows before movements in working capital | **882,945** | 989,999 |
| Increase in inventories | **(574,802)** | (540,205) |
| Increase in trade and other receivables | **(1,097,603)** | (270,412) |
| Increase in trade and other payables | **1,230,119** | 162,175 |
| Cash generated from operations | **440,659** | 341,557 |
| PRC income tax paid | **(64,130)** | (139,209) |
| South Africa income tax paid | **(290)** | – |
| Net cash from operating activities | **376,239** | 202,348 |
| Investing activities | | |
| Release of pledged bank deposits | **2,083,979** | 3,541,356 |
| Interest received | **33,275** | 59,501 |
| Proceeds from disposal of property, plant and equipment | **84** | 2,157 |
| Bank deposits pledged | **(2,385,738)** | (3,073,908) |
| Purchase of property, plant and equipment | **(105,079)** | (105,761) |
| Payment for acquisition of land use rights | **(52,924)** | (7,472) |
| Advance to an associate | **(27,043)** | – |
| Deposits paid for acquisition of property, plant and equipment | **(18,539)** | (11,868) |
| Net cash (used in) from investing activities | **(471,985)** | 404,005 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Financing activities | | |
| New bank borrowings raised | **4,548,597** | 4,444,977 |
| Advances from directors | **5,146** | 2,045 |
| Repayment of bank borrowings | **(4,781,878)** | (4,649,777) |
| Interest paid | **(251,913)** | (221,635) |
| Dividends paid | **(110,636)** | (109,482) |
| Repayment to directors | **(5,708)** | (1,840) |
| Purchase of shares under share award scheme | **(901)** | (33,515) |
| Repayment of obligation under a finance lease | **–** | (391) |
| Capital contribution from a non-controlling interest of a newly incorporated subsidiary | **–** | 2,000 |
| Net cash used in financing activities | **(597,293)** | (567,618) |
| Net (decrease) increase in cash and cash equivalents | **(693,039)** | 38,735 |
| Cash and cash equivalents at beginning of the year | **2,172,465** | 2,131,286 |
| Effect of foreign exchange rate changes | **333** | 2,444 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | **1,479,759** | 2,172,465 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Prior to 14 December 2017, the immediate holding company and the ultimate holding company of the Company were both Power Heritage Group Limited ("Power Heritage"), a company which was incorporated in the British Virgin Islands ("BVI"). On 14 December 2017, 無錫光普投資有限公司, a company which was incorporated in the People's Republic of China ("PRC"), became the holding company of Power Heritage, and in turn, the ultimate holding company of the Company. 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.

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

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 35, the application of these amendments has had no impact on the Group's consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and revised HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC) -Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) -Int 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[2] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

### HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### HKFRS 9 "Financial Instruments" *(continued)*

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impacts may arise from the initial application of HKFRS 9:

***Classification and Measurement***

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 18: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon the initial application of HKFRS 9, any fair value gain relating to these securities would be adjusted to the investments revaluation reserve as at 1 January 2018;

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

***Impairment***

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon the application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under the expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

### HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed from lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### HKFRS 16 "Leases" *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront land use rights as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset for land use rights for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements of the Group in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Basis of consolidation *(continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Basis of consolidation *(continued)*

***Business combinations*** *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of CGUs in which the Group monitors goodwill).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income 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 consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress include property, plant and equipment in the course of construction for production, supply or administrative purposes which are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories 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 assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Land use rights and leasehold building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

The up-front payments to acquire interests in leasehold land are accounted for as operating leases are stated at cost and released over the lease term on a straight-line basis.

### 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 sale, are added to the cost of those assets until such time as 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Research and development costs

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Impairment on tangible assets

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 relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so 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 (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments

Financial assets and financial liabilities are recognised 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 (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

Financial assets are classified into loans and receivables and available-for-sale financial assets. 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 marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated 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 debt instrument, 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 an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan to an associate, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity investments. The Group designated as available-for-sale financial assets on initial recognition of those items.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each 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 estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

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 average 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other 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 and other 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial liabilities and equity instruments***

Debt 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 and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*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.

*Financial liabilities at amortised cost*

Financial liabilities including trade and other payables, amounts due to directors and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

When the trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the shares held for the share award scheme. Accordingly, the related expense of the granted shares vested is reversed from the employee share-based compensation reserve. The difference arising from such transfer is debited/credited to accumulated profits. At the end of the reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the employee share-based compensation reserve.

### 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 before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in a subsidiary and associates, 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 and interests 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 each 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

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 are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### 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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. 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 period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, 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 under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are 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 on-going 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 followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Valuation of trade receivables

The Group makes allowance for bad and doubtful debts based on an assessment of the recoverability of the trade receivables. Allowances are made on trade receivables whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration of the credit history of the trade receivables, including default or delay in payments, settlement history and aging analysis of the trade receivables. Following the identification of doubtful debts, the credit team discusses with the relevant customers and reports on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further allowance for bad and doubtful debts is required.

At 31 December 2017, the carrying amount of trade receivables is RMB4,127,898,000 (2016: RMB3,204,785,000) (net of allowance for bad and doubtful debts of RMB253,660,000 (2016: RMB205,691,000)).

### Impairment assessment of goodwill

Determining whether goodwill is impaired required an estimation of the recoverable amount of the CGU to which goodwill have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate future cash flows expected to arise from the CGUs and suitable discount rates, growth rates and gross margin in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise.

At 31 December 2017, the carrying amount of goodwill is RMB109,606,000 (2016: RMB109,606,000). Details of the recoverable amount calculation are disclosed in Note 16.

### 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 the 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 consolidated financial statements for any obsolete and slow moving items. Although the Group carried out periodic reviews on the net realisable value of inventories, the actual realisable value of inventories is not known until the sale was concluded. At 31 December 2017, the carrying amount of inventories is RMB4,002,379,000 (2016: RMB3,809,255,000).

## 5. TURNOVER AND SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the executive directors of the Company ("Executive Directors") who review the business of the following reportable operating segments by products:

- Power cables
- Wires and cables for electrical equipment
- Bare wires
- Special cables (including rubber cables, flexible fire proof cables and others)

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 the performance of the Group.

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

The segment results represent the gross profit earned by each segment (segment revenue less segment cost of goods sold), which represents the internally generated financial information regularly reviewed by the Executive Directors. However, other income, selling and distribution costs, administrative expenses, research and development costs, other losses, share of results of associates and finance costs are not allocated to each reportable segment. The segment results are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

## 5. TURNOVER AND SEGMENT INFORMATION *(continued)*

The information of segment results are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Revenue | | |
| — power cables | **7,693,970** | 6,414,183 |
| — wires and cables for electrical equipment | **2,256,538** | 1,697,625 |
| — bare wires | **640,005** | 511,190 |
| — special cables | **784,456** | 488,234 |
| | **11,374,969** | 9,111,232 |
| Cost of goods sold | | |
| — power cables | **6,829,204** | 5,421,306 |
| — wires and cables for electrical equipment | **2,035,558** | 1,496,536 |
| — bare wires | **577,609** | 457,898 |
| — special cables | **608,729** | 377,444 |
| | **10,051,100** | 7,753,184 |
| Segment results | | |
| — power cables | **864,766** | 992,877 |
| — wires and cables for electrical equipment | **220,980** | 201,089 |
| — bare wires | **62,396** | 53,292 |
| — special cables | **175,727** | 110,790 |
| | **1,323,869** | 1,358,048 |

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Reportable segment results | **1,323,869** | 1,358,048 |
| Unallocated income and expenses | | |
| — Other income | **57,099** | 84,925 |
| — Selling and distribution costs | **(276,756)** | (219,064) |
| — Administrative expenses | **(242,258)** | (234,598) |
| — Research and development costs | **(35,387)** | (32,205) |
| — Other losses | **(430,816)** | (68,540) |
| — Share of results of associates | **1,324** | (12,127) |
| — Finance costs | **(251,913)** | (221,635) |
| Profit before taxation | **145,162** | 654,804 |

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.

## 5. TURNOVER AND SEGMENT INFORMATION *(continued)*

### Geographical information

More than 90% of the Group's sales were made to customers in the PRC (country of domicile) for both years. More than 90% of the Group's non-current assets were located in the PRC at 31 December 2017 and 2016.

### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Customer A[1] | **N/A[2]** | 1,142,578 |

1 The customer purchased goods from all segments during both years.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 6. OTHER INCOME

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Interest income | **40,669** | 61,486 |
| Government subsidies *(Note)* | **12,445** | 18,782 |
| Others | **3,985** | 4,657 |
| | **57,099** | 84,925 |

*Note:* Included in the amount are RMB927,000 (2016: RMB927,000) and RMB1,333,000 (2016: RMB2,666,000) representing deferred income on government subsidies recognised during the year in relation to capital expenditure on property, plant and equipment over the useful lives of the related assets and technological research and development projects over the projects' lives, respectively. The remaining 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, and all of them had no specific conditions imposed.

## 7. OTHER LOSSES

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Write-down of inventories *(Note)* | **382,245** | – |
| Allowance for bad and doubtful debts | **47,969** | 65,026 |
| Loss on disposal of property, plant and equipment | **602** | 3,514 |
| | **430,816** | 68,540 |

*Note:* Due to the changes in market requirements in the current year, the Group had implemented a product quality assessment exercise to identify affected inventories which were to be disassembled. The difference between the carrying amounts of affected inventories being disassembled and the respective estimated net realisable values was recognised as write-down of inventories in the consolidated financial statements.

## 8. FINANCE COSTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Interests on bank borrowings | **251,913** | 221,635 |

## 9. PROFIT BEFORE TAXATION

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration *(Note 10)* | **2,185** | 4,955 |
| Other staff costs: | | |
| Salaries and other benefits | **206,678** | 200,742 |
| Share award expenses | **164** | 8,335 |
| Contributions to retirement benefit schemes | **40,414** | 37,028 |
| Total staff costs | **249,441** | 251,060 |
| Less: Staff costs included in research and development costs | **(25,064)** | (17,368) |
| | **224,377** | 233,692 |
| Depreciation of property, plant and equipment | **91,670** | 80,334 |
| Less: Depreciation included in research and development costs | **(5,736)** | (2,930) |
| | **85,934** | 77,404 |
| Auditor's remuneration | **2,862** | 2,900 |
| Cost of inventories recognised as expenses | **10,019,446** | 7,733,119 |
| Minimum lease payments under operating lease in respect of properties | **4,257** | 2,443 |
| Operating lease rentals in respect of land use rights | **7,449** | 6,871 |

## 10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid or payable by the Group to the directors and chief executive of the Company are as follows:

| | Fees RMB'000 | Basic salaries and allowances RMB'000 | Retirement benefit schemes contribution RMB'000 | Share award expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | |
| Executive directors: | | | | | |
| Chu Hui *(Note a)* | – | 607 | 21 | 6 | 634 |
| Jiang Yongwei | – | 367 | 10 | 6 | 383 |
| Xia Yafang | – | 427 | 10 | 6 | 443 |
| Hao Minghui | – | 362 | 10 | 6 | 378 |
| Independent non-executive directors: | | | | | |
| Philip Poon Yick Pang | 173 | – | – | – | 173 |
| He Zhisong | 87 | – | – | – | 87 |
| Yang Rongkai | 87 | – | – | – | 87 |
| | 347 | 1,763 | 51 | 24 | 2,185 |

| | Fees RMB'000 | Basic salaries and allowances RMB'000 | Retirement benefit schemes contribution RMB'000 | Share award expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2016** | | | | | |
| Executive directors: | | | | | |
| Chu Hui *(Note a)* | – | 610 | 20 | 608 | 1,238 |
| Rui Fubin *(Note b)* | – | 353 | – | – | 353 |
| Jiang Yongwei | – | 371 | 10 | 608 | 989 |
| Xia Yafang | – | 430 | 10 | 608 | 1,048 |
| Hao Minghui | – | 361 | 10 | 608 | 979 |
| Independent non-executive directors: | | | | | |
| Philip Poon Yick Pang | 174 | – | – | – | 174 |
| He Zhisong | 87 | – | – | – | 87 |
| Yang Rongkai | 87 | – | – | – | 87 |
| | 348 | 2,125 | 50 | 2,432 | 4,955 |

## 10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

*Notes:*

(a) Mr. Chu Hui is the chief executive officer ("CEO") of the Company and was appointed as the chairman of the board of directors ("Board") on 30 May 2016. His emoluments disclosed above include those services rendered by him as the chairman of the Board and the CEO of the Company since his appointment.

(b) Mr. Rui Fubin resigned as the chairman of the Board and an executive director of the Company on 30 May 2016 and his emoluments disclosed above include those services rendered by him as the chairman of the Board and an executive director before his resignation.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and its subsidiaries.

The emoluments of the independent non-executive directors shown above were paid for their appointment as directors of the Company.

The five highest paid individuals for the year ended 31 December 2017 included two (2016: four) directors, details of whose emoluments are set out above. The emoluments of the remaining three individuals (2016: one individual), for the year are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Employees | | |
| — basic salaries and allowances | **2,076** | 1,142 |
| — retirement benefit schemes contribution | **47** | 16 |
| — share award expenses | **83** | 891 |
| | **2,206** | 2,049 |

The emoluments of the three individuals (2016: one individual) with the highest emoluments are within the following bands:

| | **2017 Number of individuals** | 2016 Number of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **2** | – |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |

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 directors has waived any emoluments during both years.

## 11. TAXATION

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| The charge (credit) comprises: | | |
| Current tax | | |
| PRC income tax | **39,277** | 125,974 |
| South Africa income tax | **1,012** | – |
| | **40,289** | 125,974 |
| Net deferred taxation charge (credit) *(Note 26)* | **961** | (1,044) |
| Taxation charge for the year | **41,250** | 124,930 |

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 PRC on Enterprise Income Tax ("EIT Law") and the Regulations of the PRC on the Implementation of the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onward. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) ("Zhongmei Cable") were endorsed as High and New Technology Enterprises on 4 March 2009 (renewed on 6 July 2015) and 2 September 2014 (renewed on 7 December 2017) respectively and were entitled to and were charged income tax in the PRC at a reduced income tax rate of 15% till next renewal in 2018 and 2020 respectively.

Dividends distributed by a PRC entity to foreign investors out of its profits generated from 1 January 2008 onwards shall be subject to EIT at 10%, which shall be withheld by the PRC entity pursuant to Articles 3 and 37 of the EIT Law and Article 91 of the Regulations of the PRC on the Implementation of the EIT Law.

Taxation arising in South Africa is calculated at the rate prevailing in South Africa. South Africa corporate tax is calculated at 28% of the assessable profit during both years.

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

## 11. TAXATION *(continued)*

The taxation for the year is reconciled to profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Profit before taxation | **145,162** | 654,804 |
| Tax at the applicable tax rate *(Note)* | **36,291** | 163,701 |
| Tax effect of expenses not deductible for tax purpose | **8,348** | 3,014 |
| Tax effect of income not taxable for tax purpose | **(822)** | (3,570) |
| Tax effect of tax concession granted to PRC subsidiaries | **(13,999)** | (58,064) |
| Tax effect of deductible temporary differences not recognised | **7,195** | 9,754 |
| Tax effect of share of results of associates | **(331)** | 3,032 |
| Withholding tax on undistributed earnings | **2,921** | 10,946 |
| Others | **1,647** | (3,883) |
| Taxation for the year | **41,250** | 124,930 |

*Note:* The applicable income tax rate represents PRC income tax rate at 25% (2016: 25%) for the year ended 31 December 2017 as the Group's operations are substantially based in the PRC.

## 12. DIVIDENDS

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2016 Final dividend — HK3.1 cents (2016: 2015 Final dividend of HK3.1 cents) per share | **110,636** | 109,482 |

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: HK3.1 cents).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company for the year is based on the following data:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Earnings | | |
| Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to the owners of the Company) | **103,912** | 531,322 |

| | **2017**<br>**'000** | 2016<br>'000 |
|---|---|---|
| Number of shares | | |
| Weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of calculation of basic earnings per share | **4,038,757** | 4,041,507 |
| Effect of dilutive potential ordinary shares: | | |
| Shares granted under the share award scheme | **4,324** | 7,289 |
| Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share | **4,043,081** | 4,048,796 |

The weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share for both years has been adjusted for the shares granted on 28 January 2016 pursuant to the share award scheme adopted by the Company on 9 September 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 14. 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 2016 | 474,849 | 450,937 | 36,354 | 37,502 | 111,994 | 1,111,636 |
| Currency realignment | – | – | 276 | 78 | – | 354 |
| Additions | 12,245 | 20,362 | 2,394 | 2,454 | 102,264 | 139,719 |
| Disposals | – | (11,109) | (10,108) | (803) | – | (22,020) |
| Transfer | 59,283 | 55,268 | 1,855 | 51 | (116,457) | – |
| At 31 December 2016 | 546,377 | 515,458 | 30,771 | 39,282 | 97,801 | 1,229,689 |
| Currency realignment | – | – | 8 | 3 | – | 11 |
| Additions | 293 | 31,631 | 1,980 | 4,060 | 76,113 | 114,077 |
| Disposals | – | (1,658) | (3,542) | – | – | (5,200) |
| Transfer | 36,375 | 84,529 | – | 137 | (121,041) | – |
| At 31 December 2017 | 583,045 | 629,960 | 29,217 | 43,482 | 52,873 | 1,338,577 |
| DEPRECIATION | | | | | | |
| At 1 January 2016 | 93,414 | 188,492 | 19,907 | 20,017 | – | 321,830 |
| Currency realignment | – | – | 111 | 55 | – | 166 |
| Provided for the year | 26,023 | 46,091 | 4,677 | 3,543 | – | 80,334 |
| Eliminated on disposals | – | (7,903) | (7,723) | (723) | – | (16,349) |
| At 31 December 2016 | 119,437 | 226,680 | 16,972 | 22,892 | – | 385,981 |
| Currency realignment | – | – | 7 | 3 | – | 10 |
| Provided for the year | 29,605 | 54,397 | 4,237 | 3,431 | – | 91,670 |
| Eliminated on disposals | – | (1,258) | (3,256) | – | – | (4,514) |
| At 31 December 2017 | 149,042 | 279,819 | 17,960 | 26,326 | – | 473,147 |
| CARRYING VALUES | | | | | | |
| At 31 December 2017 | 434,003 | 350,141 | 11,257 | 17,156 | 52,873 | 865,430 |
| At 31 December 2016 | 426,940 | 288,778 | 13,799 | 16,390 | 97,801 | 843,708 |

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

At 31 December 2017, the Group pledged certain of its buildings and machinery with carrying values of RMB194,934,000 and RMB29,656,000 (2016: RMB183,708,000 and RMB58,476,000) respectively to certain banks to secure credit facilities granted to the Group.

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 | Over the shorter of the term of lease, or 4.8% |
| Plant and machinery | 9% |
| Motor vehicles | 18% |
| Furniture, fixtures and equipment | 18% |

## 15. LAND USE RIGHTS

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Carrying amount | | |
| At beginning of the year | **265,437** | 264,836 |
| Additions | **52,924** | 7,472 |
| Charged to profit or loss for the year | **(7,449)** | (6,871) |
| At end of the year | **310,912** | 265,437 |
| Analysed for reporting purpose as: | | |
| Current portion *(Note 20)* | **7,980** | 6,921 |
| Non-current portion | **302,932** | 258,516 |
| | **310,912** | 265,437 |

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 2017, the Group has pledged the land use rights with a carrying amount of RMB303,703,000 (2016: RMB242,839,000) to certain banks to secure the credit facilities granted to the Group.

## 16. GOODWILL

| | RMB'000 |
|---|---|
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 109,606 |

For the purpose of impairment testing, goodwill arising from business combinations has been allocated to the following CGUs:

| | **2017 & 2016** RMB'000 |
|---|---|
| New Sun Investments Limited ("New Sun") | 54,831 |
| Kai Da Investments Limited ("Kai Da") | 54,775 |
| | 109,606 |

## 16. GOODWILL *(continued)*

During the year ended 31 December 2017, the management of the Group determines that there is no impairment of any of its CGUs containing goodwill (2016: nil).

The basis of the recoverable amounts of the above CGUs and its major underlying assumptions are summarised below:

The recoverable amounts of these CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections covering a 5-year period, based on financial budgets approved by the management, a growth rate of 6% (2016: 10%) and a discount rate of 13.74% (2016: 10.86%) per annum for New Sun and a growth rate of 6% (2016: 10%) and a discount rate of 13.57% (2016: 10.60%) per annum for Kai Da. Cash flows beyond the 5-year period are extrapolated with a 3% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budget sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for the market development.

## 17. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cost of investments in associates, unlisted | **15,318** | 15,309 |
| Impairment loss recognised | **(259)** | (250) |
| Share of post-acquisition losses and other comprehensive expense, net of dividends received | **(11,948)** | (11,825) |
| | **3,111** | 3,234 |

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Loan to an associate | **68,503** | 32,212 |
| Less: Share of post-acquisition losses that are in excess of the cost of the investment | **(4,747)** | (6,194) |
| | **63,756** | 26,018 |

The loan to an associate is unsecured and carries interest at 8% (2016: 7%) compounded monthly, which in the opinion of the directors of the Company, is expected to be repaid after one year and hence it is classified as non-current asset.

## 17. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE *(continued)*

Details of the Group's associates at the end of the reporting period are as follows:

| Name of entity | Form of entity | Country of incorporation/ establishment | Principal place of operation | Proportion of ownership interest held by the Group 2017 & 2016 | Proportion of voting rights held by the Group 2017 & 2016 | Principal activity |
|---|---|---|---|---|---|---|
| 江蘇和順典當有限公司 (“江蘇和順”) | Incorporated | PRC | PRC | 30% | 30% | Business of pawn broking |
| Wuxi Tech (Proprietary) Ltd. ("Wuxi Tech") | Incorporated | South Africa | South Africa | 49% | 49% | Manufacture of electrical cables |

### Summarised financial information of associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

The associates are accounted for using the equity method in these consolidated financial statements.

#### 江蘇和順

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Current assets | **13,494** | 13,618 |
| Non-current assets | **35** | 79 |
| Current liabilities | **(3,159)** | (2,917) |
| Net assets | **10,370** | 10,780 |
| Revenue | **18** | 266 |
| Loss and total comprehensive expense for the year | **(410)** | (36,777) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Net assets of 江蘇和順 | **10,370** | 10,780 |
| Proportion of the Group's ownership interest in 江蘇和順 | **30%** | 30% |
| Carrying amount of the Group's interest in 江蘇和順 | **3,111** | 3,234 |

## 17. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE *(continued)*

### Wuxi Tech

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Current assets | **95,088** | 91,566 |
| Non-current assets | **5,718** | 6,366 |
| Current liabilities | **(40,966)** | (77,711) |
| Non-current liabilities | **(68,525)** | (32,210) |
| Net liabilities | **(8,685)** | (11,989) |
| Revenue | **173,681** | 86,206 |
| Profit (loss) for the year | **2,953** | (2,232) |
| Other comprehensive income (expense) for the year | **351** | (1,852) |
| Total comprehensive income (expense) for the year | **3,304** | (4,084) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Net liabilities of Wuxi Tech | **(8,685)** | (11,989) |
| Proportion of the Group's ownership interest in Wuxi Tech | **49%** | 49% |
| | **(4,256)** | (5,875) |
| Effect of net liabilities not recognised by the Group | **4,256** | 5,875 |
| Carrying amount of the Group's interest in Wuxi Tech | **–** | – |

## 18. AVAILABLE-FOR-SALE INVESTMENT

The amount represents the Group's 0.52% (2016: 0.82%) equity investment in an unlisted private enterprise in the PRC. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

## 19. INVENTORIES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Raw materials | **46,973** | 41,096 |
| Work in progress | **2,139,684** | 2,469,336 |
| Finished goods | **1,815,722** | 1,298,823 |
| | **4,002,379** | 3,809,255 |

## 20. TRADE AND OTHER RECEIVABLES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Trade receivables, net | **4,127,898** | 3,204,785 |
| Bills receivables | **333,449** | 278,509 |
| | **4,461,347** | 3,483,294 |
| Current portion of land use rights *(Note 15)* | **7,980** | 6,921 |
| Deposits paid to suppliers | **178,474** | 100,418 |
| Prepayments | **28,548** | 26,648 |
| Staff advances | **5,698** | 4,284 |
| Tender deposits | **102,233** | 101,167 |
| Value-added tax receivables | **5,581** | 6,387 |
| Other receivables | **60,890** | 68,268 |
| | **4,850,751** | 3,797,387 |

The Group normally allows credit terms ranging from 30 days to 180 days to its trade debtors.

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Age | | |
| 0 to 90 days | **2,300,057** | 1,811,887 |
| 91 to 180 days | **738,555** | 674,564 |
| 181 to 365 days | **640,013** | 550,467 |
| Over 365 days | **782,722** | 446,376 |
| | **4,461,347** | 3,483,294 |

Included in the Group's trade and bills receivables balance are debtors with an aggregate carrying amount of RMB2,154,179,000 (2016: RMB1,605,260,000) at 31 December 2017, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group's management closely monitors the credit quality of trade and bills receivables and considers the trade and bills receivables that are neither past due nor impaired to be of a good quality because they are within the credit period granted and the Group's management considers the default rate is low for such receivables based on historical information and experience. At the end of each reporting period, the management will assess the recoverability of its trade debtors and consider whether any amounts are impaired and provided for impairment loss. Except for those trade debts that are considered to be individually impaired, the remaining trade and bills receivables that are past due but not impaired, in the opinion of the management, are recoverable as there has been continuing settlement from these customers. The Group does not hold any collateral over these balances.

## 20. TRADE AND OTHER RECEIVABLES *(continued)*

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:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Age | | |
| 0 to 90 days | **140,742** | 75,203 |
| 91 to 180 days | **590,702** | 533,214 |
| 181 to 365 days | **640,013** | 550,467 |
| Over 365 days | **782,722** | 446,376 |
| | **2,154,179** | 1,605,260 |

In determining the recoverability of the trade receivables, the Group takes into consideration the credit history of the trade receivables including default or delay in payments, settlement history and aging analysis of trade receivables. The directors of the Company considered that the concentration of credit risk is limited due to the Group's customer base being large and unrelated.

At 31 December 2017, trade receivables of approximately RMB46,970,000 (2016: RMB111,156,000) have been discounted to the banks with recourse. Accordingly, the Group continues to include these discounted receivables and has recognised the cash received as bank borrowing with the same amount until maturity (see Note 24).

No interest is charged on trade receivables.

Movement in the allowance for bad and doubtful debts:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| At beginning of the year | **205,691** | 140,665 |
| Allowance for the year | **47,969** | 65,026 |
| At end of the year | **253,660** | 205,691 |

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 a case by case basis.

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.

## 20. TRADE AND OTHER RECEIVABLES *(continued)*

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| United States dollars ("USD") | 90,612 | 16,214 |
| Hong Kong dollars | 1,622 | – |
| Singapore dollars | 107,483 | 101,888 |

## 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits carry interest at prevailing market rates ranging from 1.10% to 3.47% (2016: 1.10% to 3.47%) per annum at 31 December 2017.

At 31 December 2017 and 31 December 2016, the entire pledged bank deposits represent deposits pledged to banks to secure the bank facilities drawn and the issuance of bills payables by the Group.

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 rates ranging from 0.35% to 2.1% (2016: 0.01% to 3.30%) per annum at 31 December 2017.

Included in bank balances and cash and pledged bank deposits are the following amounts denominated in currencies other than the functional currency of the group entities that it relates:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| USD | 108,729 | 103,458 |
| Hong Kong dollars | 13,455 | 10,102 |
| Singapore dollars | 6,204 | 6,232 |
| Euro | 5 | 2 |

## 22. TRADE AND OTHER PAYABLES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Trade payables | **1,378,870** | 1,098,679 |
| Bills payables | **2,265,320** | 1,454,793 |
| | **3,644,190** | 2,553,472 |
| Payroll and welfare accruals | **97,200** | 82,062 |
| Receipts in advances from customers | **618,401** | 533,696 |
| Consideration payables *(Note a)* | **130,698** | 130,698 |
| Loans advanced from staff *(Note b)* | **78,313** | 30,000 |
| Other tax payables | **22,040** | 27,004 |
| Other deposits | **440** | 3,191 |
| Other payables and accruals | **65,103** | 62,083 |
| | **4,656,385** | 3,422,206 |

*Notes:*

(a) The amounts represent consideration payable by the Group in connection with the acquisition of subsidiaries in prior years.

(b) The amounts represent loans advanced from staff of the Group and are unsecured, non-interest bearing and repayable on demand.

The Group normally receives credit terms ranging from 30 days to 90 days from its suppliers. The following is an aging analysis of trade and bills payables based on the invoice date at the end of the reporting period:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Age | | |
| 0 to 90 days | **1,272,184** | 1,917,128 |
| 91 to 180 days | **1,307,058** | 574,835 |
| 181 to 365 days | **976,131** | 23,610 |
| Over 365 days | **88,817** | 37,899 |
| | **3,644,190** | 2,553,472 |

## 22. TRADE AND OTHER PAYABLES *(continued)*

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

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| USD | **48,591** | 180 |
| Hong Kong dollars | **2,830** | – |

## 23. AMOUNTS DUE TO DIRECTORS

The amounts represent advances from directors of the Company for the daily operation, payment of certain expense by the directors on behalf of the Group and emoluments payable to the directors. The amounts were unsecured, non-interest bearing and repayable on demand.

## 24. BANK BORROWINGS — DUE WITHIN ONE YEAR

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Secured | **893,388** | 726,649 |
| Secured and guaranteed by independent third parties | **250,000** | 305,000 |
| Unsecured | **1,087,470** | 1,068,850 |
| Unsecured and guaranteed by independent third parties | **1,101,222** | 1,464,862 |
| | **3,332,080** | 3,565,361 |
| The bank borrowings comprise: | | |
| Variable rate borrowings | **727,720** | 407,202 |
| Fixed rate borrowings | **2,557,390** | 3,047,003 |
| Discounted bills with recourse *(Note 20)* | **46,970** | 111,156 |
| | **3,332,080** | 3,565,361 |

At 31 December 2017, the fixed rate bank borrowings carry interest ranging from 0.4% to 5.66% (2016: 0.4% to 6.5%) per annum.

At 31 December 2017, the variable rate bank borrowings carry interest ranging from yearly bank's Euro cost of fund + 1.05% to 130% of the People's Bank of China ("PBOC") benchmark loan interest rate per annum (2016: ranging from yearly bank's Euro cost of fund + 1.05% to 3-months USD London Interbank Offered Rate ("LIBOR") + 2% per annum).

## 24. BANK BORROWINGS — DUE WITHIN ONE YEAR *(continued)*

Included in bank borrowings are the following amounts denominated in currencies other than the functional currency of the group entities that it relates:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| USD | **206,395** | 47,172 |
| Hong Kong dollars | **77,508** | – |
| Euro | **304,577** | 272,434 |

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| For bank borrowings: | | |
| — property, plant and equipment | **224,590** | 242,184 |
| — land use rights | **303,703** | 242,839 |
| For bank borrowings and bills payables: | | |
| — pledged bank deposits | **1,727,213** | 1,425,454 |
| | **2,255,506** | 1,910,477 |

## 25. GOVERNMENT GRANTS

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| At beginning of the year | **3,001** | 6,594 |
| Released during the year | **(2,260)** | (3,593) |
| At end of the year | **741** | 3,001 |

The government grants represent government subsidies received by the Group in relation to capital expenditure on property, plant and equipment and the Group's technological research and development projects in prior years. The relevant conditions of these subsidies were fulfilled before recognition and such subsidies were non-recurring in nature. The amounts had been treated as deferred income and will be transferred to income over the useful lives of the relevant assets and the projects' lives.

## 26. DEFERRED TAXATION

The following is the deferred tax (assets) liabilities recognised by the Group and movements thereon during the year:

| | Accelerated tax depreciation RMB'000 | Tax on undistributed earnings RMB'000 | Revaluation of assets RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2016 | (4,481) | 25,479 | 45,084 | 66,082 |
| Charged (credited) to profit or loss for the year *(Note 11)* | 591 | 10,946 | (2,581) | 8,956 |
| Released upon dividend declared *(Note 11)* | – | (10,000) | – | (10,000) |
| At 31 December 2016 | (3,890) | 26,425 | 42,503 | 65,038 |
| Charged (credited) to profit or loss for the year *(Note 11)* | 589 | 2,921 | (2,549) | 961 |
| At 31 December 2017 | (3,301) | 29,346 | 39,954 | 65,999 |

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Deferred tax assets | **3,301** | 3,890 |
| Deferred tax liabilities | **(69,300)** | (68,928) |
| | **(65,999)** | (65,038) |

Deferred tax liability on the undistributed profits of the PRC subsidiaries earned during the year ended 31 December 2017 has been accrued at the tax rate of 10% (2016: 10%) on the expected dividend stream of 25% out of the undistributed profits of the PRC subsidiaries for each year which is determined by the directors of the Company. At 31 December 2017, an amount of approximately RMB293,460,000 (2016: RMB264,250,000) of the profits of the PRC subsidiaries has been provided in respect of such withholding tax. No deferred tax liability has been recognised in respect of the remaining balance of undistributed profits amounting to RMB2,473,904,000 (2016: RMB2,386,283,000).

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB253,660,000 (2016: RMB205,691,000) in respect of its allowance for bad and doubtful debts. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of the directors of the Company, that allowance for bad and doubtful debts is not highly probable to be utilised as that amount is subject to approval by the relevant tax authority in the PRC and not intended to be claimed by the Group in the foreseeable future.

## 27. SHARE CAPITAL

Movements in the authorised and issued share capital of the Company are as follows:

| | Number of shares | Amount in HK$ | Shown in the financial statements as RMB'000 |
|---|---|---|---|
| **Ordinary shares at HK$0.01 each** | | | |
| Authorised: | | | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 10,000,000,000 | 100,000,000 | |
| Issued and fully paid: | | | |
| At 1 January 2016, 31 December 2016 and 31 December 2017 | 4,078,866,000 | 40,788,660 | 32,951 |

## 28. SHARE AWARD SCHEME

The purposes of the share award scheme are to recognise the contributions by the Group's employees, executives, officers or directors and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The share award scheme of the Company was adopted by the Board on 9 September 2015. Pursuant to the share award scheme, existing shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the selected participants until such shares are vested with the selected participants in accordance with the provisions of the scheme. When the selected participant has satisfied all vesting conditions specified by the Board at the time of making the award and becomes entitled to the shares forming the subject of the award, the trustee shall transfer the relevant vested shares to that qualifying person.

During the year ended 31 December 2017, 1,500,000 (2016: 33,456,000) ordinary shares of the Company were acquired by the trustee at a total consideration of HK$1,033,000 (approximately RMB901,000) (2016: HK$39,935,000 (approximately RMB33,515,000)).

On 28 January 2016, the Directors resolved to grant an aggregate of 35,300,000 shares in the capital of the Company (the "Awarded Shares") to certain employees and members of the management of the Group who shall remain employment within the Group ("Qualified Employees") during the vesting periods pursuant to the share award scheme. Subject to the fulfilment of certain performance conditions set by the Board to each Qualified Employee, 25% of Awarded Shares shall vest on each of 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019 respectively.

The fair value of the Awarded Shares granted was determined with reference to the market value of the shares on the grant date taking into account the price volatility of the Company, risk-free rate and the vesting period as well as the exclusion of the expected dividends, as the employees are not entitled to receive dividends paid during the vesting period. The fair value of the Awarded Shares on the grant date was HK$30,182,000 (approximately RMB25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to HK$217,000 (approximately RMB188,000) (2016: HK$12,718,000 (approximately RMB10,767,000)) for the year ended 31 December 2017.

## 28. SHARE AWARD SCHEME *(continued)*

Movements of the shares granted to employees and members of the management of the Group and vested under the share award scheme were as follows:

| | Number of shares '000 |
|---|---|
| Outstanding as at 1 January 2016 | – |
| Awarded shares granted on 28 January 2016 | 35,300 |
| Awarded shares vested *(Note a)* | (8,825) |
| Outstanding as at 31 December 2016 | 26,475 |
| Awarded shares vested *(Note b)* | (500) |
| Awarded shares forfeited *(Note b)* | (8,325) |
| Outstanding as at 31 December 2017 | 17,650 |

*Notes:*

(a) Being 25% of the Awarded Shares which were vested on 1 April 2016 to Qualified Employees.

(b) Based on the fulfilment of certain performance conditions, 500,000 Awarded Shares were vested on 1 April 2017 to certain Qualified Employees with 8,325,000 Awarded Shares being forfeited.

Movements of shares purchased under the share award scheme were as follows:

| | Number of shares purchased '000 | Cost of purchase HK$'000 | Cost of purchase RMB'000 |
|---|---|---|---|
| At 1 January 2016 | 15,040 | 24,720 | 20,374 |
| Shares purchased from the market during the year | 33,456 | 39,935 | 33,515 |
| Shares transferred out upon being vested | (8,825) | (15,280) | (12,525) |
| At 31 December 2016 | 39,671 | 49,375 | 41,364 |
| Shares purchased from the market during the year | 1,500 | 1,033 | 901 |
| Shares transferred out upon being vested | (500) | (831) | (684) |
| At 31 December 2017 | 40,671 | 49,577 | 41,581 |

## 29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group 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 from prior 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 issued share capital, reserves and accumulated profits as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 30. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | **7,897,077** | 7,276,601 |
| Available-for-sale investment | **7,090** | 7,090 |
| Financial liabilities | | |
| Amortised cost | **7,201,719** | 6,299,335 |

### Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, loan to an associate, pledged bank deposits, bank balances and cash, available-for-sale investment, trade and other payables, amounts due to directors 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 in a timely and effective manner.

***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 PBOC from its RMB denominated pledged bank deposits, bank balances and bank borrowings, the fluctuation of the interest rates offered by the ICE Benchmark Administration from its United States dollars, Hong Kong dollars and Euro denominated bank balance and bank borrowings.

## 30. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

***Interest rate risk*** *(continued)*

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 variable rate bank borrowings had been 25 basis points (2016: 25 basis points) lower and all other variables were held constant, the potential effect on profit for the year is as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Decrease in profit for the year | **(6,096)** | (7,644) |

There would be an equal and opposite impact on the profit for the year where there had been 25 basis points higher. In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period do not reflect the exposure for the whole year.

***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 2017, approximately 3% (2016: 3%) of the Group's sales are denominated in currency other than the functional currency of the Group entities 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:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Assets RMB'000** | **Liabilities RMB'000** | Assets RMB'000 | Liabilities RMB'000 |
| USD | **199,341** | **254,986** | 119,672 | 47,352 |
| Hong Kong dollars | **15,077** | **80,338** | 10,102 | – |
| Singapore dollars | **113,687** | **–** | 108,120 | – |
| Euro | **5** | **304,577** | 2 | 272,434 |

## 30. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(continued)*

***Currency risk*** *(continued)*

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% (2016: 5%) increase and decrease in 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% (2016: 5%) change in foreign currency rates. If RMB strengthens 5% (2016: 5%) against the relevant foreign currencies, the increase (decrease) in post tax profit for the year is as follows:

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| USD | **2,365** | (3,074) |
| Hong Kong dollars | **2,774** | (429) |
| Singapore dollars | **(4,832)** | (4,595) |
| Euro | **12,944** | 11,578 |

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

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the year does not reflect the exposure during the year.

***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 consolidated 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 such as chasing individual overdue debts by credit team and taking legal action 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 details of trade and bills receivables which are past due but not impaired at the end of the reporting period are disclosed in Note 20.

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.

With respect to credit risk arising from the loan to an associate, the Group had reviewed the recoverable amount at the end of the reporting period to ensure that adequate impairment losses had been made for irrecoverable amounts. The exposure to credit risk is limited.

## 30. FINANCIAL INSTRUMENTS *(continued)*

### Financial risk management objectives and policies *(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 of 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 the current interest rate at the end of the reporting period.

| | Weighted average effective interest rate % | Repayable on demand or less than 6 months RMB'000 | 6 months to 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | |
| Trade and other payables | – | **3,864,403** | – | **3,864,403** | **3,864,403** |
| Amounts due to directors | – | **5,236** | – | **5,236** | **5,236** |
| Discounted bills with recourse | – | **47,049** | – | **47,049** | **46,970** |
| Bank borrowings: | | | | | |
| — variable rate | **2.43** | **446,319** | **288,453** | **734,772** | **727,720** |
| — fixed rate | **4.37** | **1,654,594** | **947,793** | **2,602,387** | **2,557,390** |
| | | **6,017,601** | **1,236,246** | **7,253,847** | **7,201,719** |

| | Weighted average effective interest rate % | Repayable on demand or less than 6 months RMB'000 | 6 months to 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | |
| Trade and other payables | – | 2,728,176 | – | 2,728,176 | 2,728,176 |
| Amounts due to directors | – | 5,798 | – | 5,798 | 5,798 |
| Discounted bills with recourse | – | 111,156 | – | 111,156 | 111,156 |
| Bank borrowings: | | | | | |
| — variable rate | 3.25 | 273,145 | 139,758 | 412,903 | 407,202 |
| — fixed rate | 4.25 | 2,036,337 | 1,066,790 | 3,103,127 | 3,047,003 |
| | | 5,154,612 | 1,206,548 | 6,361,160 | 6,299,335 |

## 30. FINANCIAL INSTRUMENTS *(continued)*

### Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

## 31. 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 are as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Within one year | **1,685** | 1,615 |
| In the second to fifth year inclusive | **–** | 897 |
| | **1,685** | 2,512 |

The leases are negotiated for lease terms of 1 to 5 years at fixed monthly rental for both years.

## 32. CAPITAL COMMITMENT

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment | **11,743** | 18,130 |

## 33. 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 subsidiaries are 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$1,500 per month for each employee.

## 34. RELATED PARTIES TRANSACTIONS

During the year, the Company had the following transactions/balance with related parties:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Sales of goods to an associate | **13,001** | 81,121 |
| Purchases of goods from an associate | **2,669** | 2,517 |
| Interest income from an associate | **7,394** | 6,305 |
| Amount due from an associate included in trade receivables | **45,236** | 76,348 |

The amount due from an associate included in trade receivables is unsecured, non-interest bearing and has a credit term of 180 days.

Other than the transactions and balances with related parties above and those disclosed in Notes 17, 23 and 24, the Group had no other significant transactions and balances with related parties during the year.

The details of remuneration of key management personnel, representing the emoluments of directors of the Company paid during the year, are set out in Note 10.

## 35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Amounts due to directors** Note 23 RMB'000 | **Bank borrowings** Note 24 RMB'000 | **Dividend payables** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 5,798 | 3,565,361 | – | 3,571,159 |
| Financing cash flows | (562) | (485,194) | (110,636) | (596,392) |
| Interest expenses | – | 251,913 | – | 251,913 |
| Dividends declared | – | – | 110,636 | 110,636 |
| At 31 December 2017 | 5,236 | 3,332,080 | – | 3,337,316 |

*Note:* The cash flows represents the new bank borrowings raised, advances from directors, repayment of bank borrowings, interest paid, dividends paid and repayment to directors in the consolidated statement of cash flows.

## 36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Non-current assets | | |
| Interest in a subsidiary | **1,381,448** | 517,162 |
| Property, plant and equipment | **10** | 38 |
| | **1,381,458** | 517,200 |
| Current assets | | |
| Other receivables | **1,510** | 785 |
| Amounts due from subsidiaries | **850,020** | 1,899,423 |
| Pledged bank deposits | **85,075** | – |
| Bank balances and cash | **8,629** | 13,550 |
| | **945,234** | 1,913,758 |
| Current liabilities | | |
| Other payables | **3,110** | 4,028 |
| Amounts due to directors | **3,294** | 3,417 |
| Bank borrowings — due within one year | **275,818** | 184,602 |
| | **282,222** | 192,047 |
| Net current assets | **663,012** | 1,721,711 |
| Net assets | **2,044,470** | 2,238,911 |
| Capital and reserves | | |
| Share capital | **32,951** | 32,951 |
| Reserves *(Note 37)* | **2,011,519** | 2,205,960 |
| Total equity | **2,044,470** | 2,238,911 |

## 37. RESERVES OF THE COMPANY

| | Share premium RMB'000 | Special reserve RMB'000 | Warrant reserve RMB'000 | Shares held for share award scheme RMB'000 | Employee share-based compensation reserve RMB'000 | Accumulated profits (losses) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 1,983,889 | 148,696 | 960 | (20,374) | – | 99,945 | 2,213,116 |
| Profit and total comprehensive income for the year | – | – | – | – | – | 125,074 | 125,074 |
| Recognition of equity-settled share-based payments | – | – | – | – | 10,767 | – | 10,767 |
| Shares vested under share award scheme | – | – | – | 12,525 | (7,839) | (4,686) | – |
| Expiration of warrants | – | – | (960) | – | – | 960 | – |
| Purchase of shares under share award scheme | – | – | – | (33,515) | – | – | (33,515) |
| Dividends recognised as distribution *(Note 12)* | – | – | – | – | – | (109,482) | (109,482) |
| At 31 December 2016 | 1,983,889 | 148,696 | – | (41,364) | 2,928 | 111,811 | 2,205,960 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | (83,092) | (83,092) |
| Recognition of equity-settled share-based payments | – | – | – | – | 188 | – | 188 |
| Shares vested under share award scheme | – | – | – | 684 | (330) | (354) | – |
| Purchase of shares under share award scheme | – | – | – | (901) | – | – | (901) |
| Dividends recognised as distribution *(Note 12)* | – | – | – | – | – | (110,636) | (110,636) |
| At 31 December 2017 | 1,983,889 | 148,696 | – | (41,581) | 2,786 | (82,271) | 2,011,519 |

## 38. SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Place of incorporation/ type of legal entity | Issued and paid up capital | Attributable equity interest of the Group 2017 % | 2016 % | Principal country/place of operation | Principal activities |
|---|---|---|---|---|---|---|
| Extra Fame Group Limited* | BVI/Limited liability | USD10,438,413 | **100** | 100 | Hong Kong | Investment holding |
| Wuxi Jiangnan Cable | PRC WFOE[1] | USD142,563,484 | **100** | 100 | PRC | Manufacture of and trading in wires and cables |
| Jiangnan Cable (HK) Limited | Hong Kong/Limited liability | HK$10 | **100** | 100 | Hong Kong | Investment holding and trading in copper conductors |
| JNHB Trading Co., Ltd. | Hong Kong/Limited liability | HK$100 | **100** | 100 | Hong Kong | Trading in wires and cables |
| Wuxi New Suneng Electric Power Science & Technology Co., Ltd. | PRC WFOE[1] | HK$141,000,000 | **100** | 100 | PRC | Manufacture of and trading in aluminium alloy and double capacity conductors |
| SA Asia Cable (Proprietary) Limited | South Africa/ Limited liability | RAND75,001,000 | **100** | 100 | South Africa | Trading in wires and cables |
| Jiangsu Zengyang Investment Company Limited | PRC WFOE[1] | RMB250,000,000 | **100** | 100 | PRC | Investment holding |
| Jiangsu Zenghui Investment Co., Ltd. | PRC WFOE[1] | RMB250,000,000 | **100** | 100 | PRC | Investment holding |
| Zhongmei Cable | PRC WFOE[1] | RMB250,000,000 | **100** | 100 | PRC | Manufacture of and trading in wires and cables |
| New Sun | Cayman Islands/ Limited liability | HK$1 | **100** | 100 | Hong Kong | Investment holding |
| New Sun Cable (HK) Company Limited | Hong Kong/Limited liability | HK$1 | **100** | 100 | Hong Kong | Investment holding |
| Wuxi New Sun | PRC WFOE[1] | RMB208,000,000 | **100** | 100 | PRC | Manufacture of and trading in wires and cables |
| Kai Da | Cayman Islands/ Limited liability | HK$0.01 | **100** | 100 | Hong Kong | Investment holding |
| Kai Da Cable (HK) Company Limited | Hong Kong/Limited liability | HK$1 | **100** | 100 | Hong Kong | Investment holding |
| Jiangsu Kai Da | PRC WFOE[1] | RMB208,000,000 | **100** | 100 | PRC | Manufacture of and trading in wires and cables |
| Jiangnan Power Assets Limited | BVI/Limited liability | USD1 | **100** | 100 | Hong Kong | Investment holding |
| Jiangnan Power Assets (HK) Limited | Hong Kong/Limited liability | HK$1 | **100** | 100 | Hong Kong | Investment holding |
| Wuxi Jiangnanhuicong E-business Co., Ltd. | PRC/Limited liability | RMB10,000,000 | **60** | 60 | PRC | Trading in wires and cables |
| Wuxi Changyi Electric Power Engineering Company Limited | PRC WFOE[1] | USD10,000,000 | **100** | 100 | PRC | Engineering, procurement and construction of electric power related projects |

* Extra Fame Group Limited is directly held by the Company, other subsidiaries are indirectly held by the Company.

(1) WFOE stands for wholly-foreign owned enterprise.

# FINANCIAL SUMMARY

The consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, are as follows:

| | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | **2017**<br>**RMB'000** |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Turnover | 6,477,302 | 8,154,555 | 9,167,273 | 9,111,232 | **11,374,969** |
| Cost of goods sold | (5,476,949) | (6,883,326) | (7,685,477) | (7,753,184) | **(10,051,100)** |
| Gross profit | 1,000,353 | 1,271,229 | 1,481,796 | 1,358,048 | **1,323,869** |
| Other income | 27,039 | 58,442 | 73,823 | 84,925 | **57,099** |
| Selling and distribution costs | (109,967) | (134,999) | (202,727) | (219,064) | **(276,756)** |
| Administrative expenses | (132,553) | (147,993) | (179,185) | (234,598) | **(242,258)** |
| Other expenses | (17,507) | (23,491) | (30,732) | (32,205) | **(35,387)** |
| Other losses | (5,613) | (21,450) | (29,000) | (68,540) | **(430,816)** |
| Gain on bargain purchase | 42,326 | – | – | – | **–** |
| Share of results of associates | (3,492) | (1,544) | (1,139) | (12,127) | **1,324** |
| Finance costs | (195,279) | (242,055) | (243,316) | (221,635) | **(251,913)** |
| Profit before taxation | 605,307 | 758,139 | 869,520 | 654,804 | **145,162** |
| Taxation | (101,784) | (132,123) | (166,259) | (124,930) | **(41,250)** |
| Profit for the year | 503,523 | 626,016 | 703,261 | 529,874 | **103,912** |
| **Assets and liabilities** | | | | | |
| Non-current assets | 896,492 | 869,518 | 1,234,175 | 1,261,060 | **1,373,765** |
| Current assets | 6,660,794 | 7,847,989 | 10,885,090 | 11,204,561 | **12,060,102** |
| Total assets | 7,557,286 | 8,717,507 | 12,119,265 | 12,465,621 | **13,433,867** |
| Current liabilities | 5,203,378 | 5,414,785 | 7,146,023 | 7,096,600 | **8,072,819** |
| Non-current liabilities | 68,252 | 72,856 | 77,317 | 71,929 | **70,041** |
| Total liabilities | 5,271,630 | 5,487,641 | 7,223,340 | 7,168,529 | **8,142,860** |
| Net assets | 2,285,656 | 3,229,866 | 4,895,925 | 5,297,092 | **5,291,007** |