江南集團有限公司

Jiangnan Group Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2018

Stock Code: 1366

One of the Largest Suppliers of

Electric Wires and Cables

CONTENTS

CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to present the 2018 interim results report of Jiangnan Group Limited (the "Company", together with its subsidiaries, "Jiangnan Group" or the "Group") for the six months ended 30 June 2018 to our shareholders.

BUSINESS ENVIRONMENT

In the first half of 2018, the national economy in the People's Republic of China ("China" or the "PRC") grew steadily. According to the National Bureau of Statistics of China, in the first half of 2018, China's gross domestic product ("GDP") grew by 6.8% over the corresponding period in 2017 to RMB41.9 trillion. National fixed asset investments increased by 6.0% over the corresponding period in 2017 to RMB29.7 trillion, representing a decrease of 2.6 percentage points in their growth as compared with that in the corresponding period in 2017.

It is expected that the overall market conditions will improve, given the PRC government's efforts in advancing its supply-side structural reform. According to the National Bureau of Statistics of China, in the first half of 2018, the utilisation rate of industrial production capacity in China was 76.7%, representing an increase of 0.3 percentage point over the corresponding period in 2017, which reflected the prominent achievements of inventory destocking in China. In June 2018, while China's composite PMI output index was 54.4%, the manufacturing purchasing managers' index of the nation was 51.5% and the non-manufacturing business activity index was 55.0%, and they all remained at an expansion level.

In terms of electricity consumption, according to the statistics of the Industry Development and Environmental Resources Division of the China Electricity Council, a joint organisation of China's power enterprises and institutions approved to be established by the State Council, the total electricity consumption of the entire country was 3,229.1 billion kilowatt-hours in the first half of 2018, representing an increase of 9.4% over the corresponding period in 2017. The electricity consumption growth increased by 3.1 percentage points over the corresponding period in 2017. In respect of the supply and transmission of electricity, the national infrastructure production capacity was 52.11 million kilowatts, which was higher than that in the corresponding period in 2017 by 1.55 million kilowatts. In the first half of 2018, the major power generation enterprises in China completed investments in respect of power supply works of RMB97.0 billion, which were 7.3% less than those in the corresponding period in 2017. For completed investments in respect of power supply works in the first half of 2018, the investments in water power amounted to RMB 22.3 billion, representing a period-on-period increase of 4.1%; the investments in thermal power amounted to RMB 29.5 billion, which were 5.5% lower than that in the corresponding period in 2017; the investments in nuclear power amounted to RMB 20.4 billion, representing an increase of 11.6% over the corresponding period in 2017 and the investments in wind power amounted to RMB 19.0 billion, which were 7.8% lower than those in the corresponding period of last year. The investments completed under the national grid project amounted to RMB203.6 billion in the first half of 2018, representing a decrease of 15.1% over those in the corresponding period in 2017. Among such completed investments, the investments made by the State Grid Corporation of China ("SGCC") in power grids in the first half of 2018 amounted to RMB 184.5 billion, which represented a significant decrease of 18.36% from those in the corresponding period in 2017. Due to the sustained reduction in power supply investments and the significant decrease in investments relating to power grids in the PRC, the Group's sales of cables in the power segment during the first half of 2018 were also adversely affected.

According to the National Bureau of Statistics of China, national infrastructure investments (excluding the production and supply of electricity, heat, gas and water) reached RMB6.3 trillion in the first half of 2018, representing an increase of 7.3% over the corresponding period in 2017, which was mainly driven by the 10.9% growth in the investments in the road transportation industry. Having a positive impact on boosting the demand for wires and cables, and coupled with China's investments in the construction of infrastructure under the "Belt and Road" Initiative, the overall increase in infrastructure investments has provided strong support to the demand for both general and special power cables.

CHAIRMAN'S STATEMENT

In order to stabilise property prices and maintain healthy development of the property market, local governments in the PRC introduced various measures according to the specific situations, such as restrictions on the purchase of properties and mortgages. However, the market demand for housing still remained strong and real estate investments still remained stable with a mild increase in the first half of 2018. According to the National Bureau of Statistics of China, in the first half of 2018, the floor space of commodity housing sold in China increased by 3.3% over the corresponding period in 2017 to 770 million square metres and the sales increased by 13.2% to RMB6.7 trillion. Investments in real estate development in China reached RMB5.6 trillion in the first half of 2018, representing an increase of 9.7% with 1.2 percentage points higher over the entire year of 2017. In the first half of 2018, the floor space of houses under development increased by 11.8% over the corresponding period in 2017 to 960 million square metres, while the floor space of houses completed decreased by 10.6% over the corresponding period in 2017 to 370 million square metres. At the end of June 2018, the floor space of houses under construction by developers reached 7,090 million square metres, representing an increase of 2.5% over the corresponding period in 2017. The land area purchased by real estate developers in the first half of 2018 amounted to 110 million square metres, representing an increase of 7.2% over the corresponding period in 2017. Real estate investments have remained stable, which also benefited the sales of cables in the first half of 2018. Despite the encouraging statistics, the structure of real estate investments has aroused concerns. As a major component of real estate investments, land acquisition costs have skyrocketed by 70% as compared to those in the corresponding period in 2017, while construction and installment costs have shown negative growth. The significant increase in land acquisition costs will lead to an apparent shrinkage in profit for real estate enterprises. It may also lead to delay in settlement by real estate developers of the receivables due to their suppliers and even default in payment by some of them.

The increase in the prices of commodities including those of copper and aluminium in 2017 have continued in the first half of 2018, and the prices of these commodities have remained on the rise over fears of a looming strike in Escondida, the world's largest copper mine located in Chile. For the six-month period ended 30 June 2018, the average price of copper on the London Metal Exchange Limited (the "LME") was USD6,913 per tonne, which was 20.3% higher than that in the corresponding period in 2017. For the six-month period ended 30 June 2018, the average price of aluminium on the LME was USD1,837 per tonne, which was 11.6% higher than that in the corresponding period 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 the income of the Group for the period under review.

BUSINESS REVIEW

For the six-month period ended 30 June 2018, the Group recorded a turnover of approximately RMB5,812.0 million, representing an increase of approximately 24.5% as compared with that in the corresponding period in 2017. The increase was attributed to the increase in the prices of commodities, such as copper and aluminium, and the gain in market share by the Group due to the consolidation of the cable industry in China.

CHAIRMAN'S STATEMENT

In the first half of 2018, the domestic and global macroeconomic landscape has posed severe challenges to the Company's development. On 22 March 2018, the President of the United States (the "US"), Donald Trump signed a Presidential Memorandum, which, pursuant to the results of Section 301 Investigation, imposes an extensive and heavy levy of tariffs on China's imports to the US and restricts investments, mergers and acquisitions in the US in relation to Chinese enterprises. While the first round of the tariffs covered USD50 billion worth of Chinese commodities, President Donald Trump even threatened to slap tariffs on all USD500 billion worth of Chinese imports. The trade tension between the US and China, being the largest and the second largest economies in the world respectively, has certainly cast a shadow over the growth of the global economy. The PRC exporters are met with considerable difficulties, while negative impacts are brought on domestic capital investments. As the incident in March 2017 involving "problem cables" produced by Shaanxi Aokai Cable Co., Ltd. which were used in the Xi'an Metro Line 3 project of the Shaanxi Province (the "Problem Cable Incident") has continued to reverberate, the State Administration for Market Regulation and other management departments continued to step up their investigations on the wire and cable industry, thus achieving a normalized monitoring. Under immense pressure from these policies, the wire and cable industry is catalyzing its consolidation, and industrial mergers and acquisitions will continue to thrive. In such a competitive industry, the Company has stood out and captured considerable opportunities by utilizing its competitive advantages in terms of size, quality and brand, but the increase in the demand for quality by the customers has put the Group under cost pressure in 2018. In addition, tougher requirements in respect of green development practices, such as energy conservation and emission reduction implemented by China have, to a certain extent, given rise to the increase in the operating costs for enterprises. For the six-month period ended 30 June 2018, the increase in the Group's turnover, coupled with the absence of inventory write-down, has contributed to an increase in the profit attributable to the owners of the Company. Nonetheless, stringent market regulations, the tightening of credits by banks, a significant decrease in investments in respect of national power grids, as well as the new measurement requirements on impairment of trade receivables resulting from the initial application of the new Hong Kong Financial Reporting Standard 9 all led to an increase in the Group's production costs, selling and distribution costs, finance costs, as well as an increase in the provision for bad and doubtful debts made by the Group. Overall, the profit attributable to the owners of the Company amounted to approximately RMB80.0 million in the first half of 2018, representing an increase of approximately 112.8% over the corresponding period in 2017 which might not be up to market expectation.

In June 2017, the Group paid a deposit of approximately RMB90 million for the acquisition of new land and plants. Such acquisition has increased the land held by the Group by approximately 120,000 square metres. In 2018, the Group speeded up the renovation and expansion of its new plants and has newly installed six units of imported production equipment and completed the transfer of the production equipment from its existing fifth and sixth workshops. The current monthly average production capacity of the new plants amounts to approximately RMB300 million and it is expected that their annual production capacity will exceed RMB3 billion. The expansion of the Group's production capacities will resolve its inventory backlog issue, further improve its delivery period and increase its customer satisfaction.

In respect of the Group's overseas business, there was a period-on-period decrease of 21.6% in the sales generated from the overseas markets in the first half of 2018. However, since the Group has maintained long-term cooperative relationships with Singapore Power Works Pte Limited ("PowerWorks") and Eskom Holdings SOC Limited, it is expected that such customers will bring steady overseas revenue to the Group. In the first half of 2018, the Group has secured a project from PowerWorks of RMB605 million, which is the biggest overseas sales contract ever entered into by the Group in the Singapore market. Meanwhile, the Group has also secured an 132kv extra-high-voltage cable supply contract in Argentina, which is a breakthrough for the Group in the South American market. It is expected that the Group's overseas market sales will maintain steady growth.

During the period under review, the Group was awarded the title of " Standardization of Electrical Industry — Demonstrative Enterprises of Good Practice" (電器工業標準化良好行為示範企業), "Top 50 Original Industrial Brand Names in Jiangsu Province" (江蘇省自主工業強), "Mayor of Yixing's Quality Award" (宜興市市長質量獎), "Demonstrative Smart Workshop in Jiangsu Province" (江蘇省示範智能) and "Demonstrative Platform for Entrepreneurship and Innovation in the Manufacturing Sector of Jiangsu Province" (江蘇省製造業"雙創"示範平台), for which the Group was the only enterprise being nominated in Yixing.

CHAIRMAN'S STATEMENT

STRATEGIES AND PROSPECTS

In 2018, both the domestic and the global economies have become unstable under the impact of the diplomatic policies and crises of various countries, in particular the trade tension between the PRC and the United States. Although the Group has operated primarily in the Chinese market and has reaped the benefits from the"One Belt, One Road" Initiative, the "Yangtze River Economic Zone" development plan, the "Greater Bay Area" plan and the "Free Trade Zone" establishments in various provinces in the PRC, the overall development of the Group has been affected considerably by the slowdown in the economic growth in the PRC. However, with further development in the construction of urban underground utility tunnels, sponge cities and smart cities, upgrade of power distribution networks, enhanced control over pollution and smog and the rise of low-carbon, energy-saving and environmental protection awareness in the PRC, the Group remains confident in the prospects of the wire and cable business.

The Group's overall philosophy of its operations was formulated based on its analysis of the macroeconomic conditions in 2018 and the PRC's national policies. In 2018, the Group will adhere closely to two fundamental strategies, "Smart Manufacturing" and "Green Manufacturing", continue to implement its excellent performance management model and further develop its "Two-tier Production Assessment" system and "Two-tier Back-Office Assessment" system, so as to boost the devotion and productivity of its employees and further strengthen and enhance its management foundation. The Group will also continue to devote more efforts to research and development. New products developed by the Group in the first half of 2018 include "aluminum-plastic composite strip ultra-high pressure shielding cable" (鋁塑複合帶屏蔽超高壓電纜), "125℃ high-temperature-resistant PVC insulation material " (125℃耐高溫PVC絕緣料) as well as one of the renowned products, "water resistant rated voltage 220kV XLPE insulation large cross-section segregated conductor power cables" (全阻水型額定電壓220kV 交聯聚乙烯絕緣大截面分割導體電力電纜), which has won the Second Prize of Yixing Science and Technology Progress Award, and "0.6/1kV aluminum alloy conductor XLPE insulation power cables" (0.6/1kV 鋁合金導體交聯聚乙烯絕緣電力電纜), which has passed the technology achievement assessment of the Ministry of Housing and Urban-Rural Development of the PRC. In 2018, the Group has also been focusing on developing quality customers through its long-term strategic relationships maintained with SGCC, China Southern Power Grid Co., Ltd, various provincial and municipal electric companies and reputable listed companies in the PRC. To achieve market expansion, the Group is striving to explore business in the power distribution and railway transportation segments.

While the performance of its sales in the first half of 2018 was impressive, the Group is clearly aware of certain problems in its operation:

1. notwithstanding that the Group believes the Problem Cable Incident was a one-off incident, it will further enhance the awareness of its management on production quality in order to produce products of higher quality; and

2. as at 30 June 2018, the outstanding trade receivables of the Group amounted to approximately RMB4.25 billion, representing an increase of approximately 5.7% as compared with those in the corresponding period in 2017. Although the increase was mainly due to the increase in turnover, the Group will closely monitor and control the collection of its trade receivables so as to speed up the return of funds to the Group. The salespersons, financial personnel and internal auditors of the Group will communicate with customers regularly to request for early settlement of outstanding receivables and, if necessary, take legal actions against the relevant customers.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

On behalf of the board (the "Board") of directors of the Company, I would like to express my heartfelt gratitude to the shareholders, investors, business partners, customers and suppliers of the Group for their long-lasting support and to all Board members, the management team and all employees of the Group for their efforts and commitment.

Chu Hui
Chairman and Chief executive officer
Hong Kong, 21 August 2018

CORPORATE INFORMATION

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

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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
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STOCK CODE
1366

WEBSITE
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MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

For the six-month period ended 30 June 2018, the Group recorded a turnover of approximately RMB5,812.0 million, representing an increase of approximately 24.5% as compared with that in the corresponding period in 2017, and a profit attributable to owners of the Company of approximately RMB80.0 million, representing an increase of approximately 112.8% as compared with that in the corresponding period in 2017. The increase in the profit attributable to owners of the Company for the period under review was mainly due to (i) the increase in turnover as compared with that in the corresponding period in 2017, which in turn has driven an increase in gross profit for the six-month period ended 30 June 2018 of approximately 29.6% to approximately RMB675.1 million (six-month period ended 30 June 2017: RMB521.1 million); and (ii) the reduction in other losses by approximately 35.1% as compared with that in the corresponding period in 2017, which was mainly due to the absence of the write-down of inventories during the period under review (six-month period ended 30 June 2017: RMB122.2 million), partially offset by (1) the increase in allowance for bad and doubtful debts of approximately RMB73.5 million to approximately RMB87.2 million during the period under review (six-month period ended 30 June 2017: RMB13.7 million); and (2) the increase in selling and distribution costs, administrative expenses and finance costs during the period under review. The Group's gross profit margin for the six-month period ended 30 June 2018 has slightly increased by approximately 0.4% to 11.6% (six-month period ended 30 June 2017: 11.2%). Basic earnings per share for the six-month period ended 30 June 2018 was RMB1.98 cents while that for the six-month period ended 30 June 2017 was RMB0.93 cents, representing an increase of approximately 112.9%.

MARKET AND BUSINESS REVIEW

According to the statistical data published by the National Bureau of Statistics of the PRC, the period-on-period growth rate of the GDP of the PRC remained stable at 6.8% in the first half of 2018. The domestic 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. However, the global political policies and economic crisis, such as the "America first" policy of the United States and the trade tension between the PRC and the United States, have not only added uncertainties to the global political and financial fields, but also negatively affected the macroeconomic environment, resulting in significant challenges to be faced by the Group in relation to its business development. For the six-month period ended 30 June 2018, the average price of copper on the LME was USD 6,913 per tonne, which was 20.3% higher than that in the corresponding period in 2017. For the six-month period ended 30 June 2018, the average price of aluminium was USD1,837 per tonne, which was 11.6% higher than that in the corresponding period 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 the turnover of the Group for the period under review.

TURNOVER

For the six-month period ended 30 June	Turnover			Gross Profit Margin		
	2018 RMB million	2017 RMB million	Percentage Change	**2018**	2017	Change
Power cables	**4,021.5**	3,179.6	26.5%	**11.3%**	10.8%	0.5%
Wires and cables for electrical equipment	**1,149.7**	913.3	25.9%	**8.8%**	8.8%	—
Bare wires	**176.1**	271.6	-35.2%	**11.6%**	10.6%	1.0%
Special cables	**464.7**	303.1	53.3%	**21.2%**	22.5%	-1.3%
Total	**5,812.0**	4,667.6	24.5%	**11.6%**	11.2%	0.4%

MANAGEMENT DISCUSSION AND ANALYSIS

Power cable products — 69.2% of total turnover

Driven by the increase in copper price, the growth in the Group's cable sales in the PRC remained strong in the first half of 2018. For the six-month period ended 30 June 2018, revenue from power cable products amounted to approximately RMB4,021.5 million, representing an increase of approximately 26.5% over that for the corresponding period in 2017 (six-month period ended 30 June 2017: RMB3,179.6 million), and turnover of power cables accounted for approximately 69.2% of the total turnover of the Group. However, sales volume of the Group's power cable products decreased by approximately 32.5% to approximately 87,510 km (six-month period ended 30 June 2017: 129,726 km), which was mainly attributed to the decrease in the sales of low-rated voltage overhead power cables as the Group has abandoned certain tenders of the SGCC of these products that required delivery of the goods to distant areas. Due to the increase in copper price and the increase in the sales proportion of higher rated voltage power cables which carried relatively higher selling prices, the average price of power cable products for the period under review increased significantly by approximately 87.5%. Gross profit for the period under review increased to approximately RMB455.7 million (six-month period ended 30 June 2017: RMB343.7 million), and gross profit margin increased to approximately 11.3% (six-month period ended 30 June 2017: 10.8%) due to the optimisation in the product mix of power cables.

Wire and cable for electrical equipment products — 19.8% of total turnover

For the six-month period ended 30 June 2018, turnover from wires and cables for electrical equipment increased by approximately 25.9% to approximately RMB1,149.7 million (six-month period ended 30 June 2017: RMB913.3 million). Sales volume of wires and cables for electrical equipment increased by approximately 10.8% from approximately 497,838 km for the six-month period ended 30 June 2017 to approximately 551,384 km for the six-month period ended 30 June 2018. Average price of wires and cables for electrical equipment increased by approximately 13.7% from approximately RMB1,834.5 per km for the six-month period ended 30 June 2017 to approximately RMB2,085.2 per km for the six-month period ended 30 June 2018, mainly due to the increase in the average copper price in the period under review.

Bare wire products — 3.0% of total turnover

As the Group has abandoned certain tenders of the SGCC which required the delivery of bare wires to distant areas, turnover from bare wires decreased significantly by approximately 35.2% to approximately RMB176.1 million (six-month period ended 30 June 2017: RMB271.6 million) for the six-month period ended 30 June 2018 and sales volume of bare wires decreased significantly by approximately 43.6% from approximately 21,945 tonnes for the six-month period ended 30 June 2017 to approximately 12,376 tonnes for the six-month period ended 30 June 2018. However, the average price of bare wire products increased by approximately 15.0% to approximately RMB14,228.3 per tonne (six-month period ended 30 June 2017: RMB12,377.8 per tonne) and the gross profit margin increased by approximately 1.0% to 11.6% (six-month period ended 30 June 2017: 10.6%) due to the increase in the average aluminium price and the optimisation in the product mix during the period under review.

Special cable products — 8.0% of total turnover

During the period under review, the sales volume of special cables remained stable at approximately 24,089 km (six-month period ended 30 June 2017: 23,890 km). The average selling price of special cables increased significantly by approximately 52.1% from approximately RMB12,687 per km for the six-month period ended 30 June 2017 to approximately RMB19,291 per km for the six-month period ended 30 June 2018. This increase in the average selling price was mainly due to the increase in the average copper price during the period under review and the increase in the sales of special cables with a higher average selling price to clients in the mining and shipbuilding industries. However, gross profit margin of special cables decreased by approximately 1.3% to approximately 21.2% (six-month period ended 30 June 2017: 22.5%) as a result of the increase in cost of goods sold, which was driven by the increase in raw materials consumed in production.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover by Geographical Markets

The PRC remains as the Group's key market. Sales in the PRC market for the six-month period ended 30 June 2018 increased by approximately 26.3% to approximately RMB5,673.2 million (six-month period ended 30 June 2017: RMB4,490.5 million), which accounted for approximately 97.6% of the Group's total turnover, and such increase was primarily due to the increase in the sales to customers in the property, infrastructure and industrial sectors in the PRC during the period under review.

Revenue contributed by the overseas markets for the period under review decreased by approximately RMB38.2 million or approximately 21.6% as compared with that for the corresponding period in 2017. This decrease was mainly attributable to the decrease in sales in South Africa during the period under review.

Cost of Goods Sold

Cost of goods sold which was composed of the costs of raw materials, production costs and direct labour costs, increased by approximately 23.9% to approximately RMB5,137.0 million during the period under review (six-month period ended 30 June 2017: RMB4,146.6 million). Costs of raw materials accounted for approximately 94.5% of cost of goods sold for the six-month period ended 30 June 2018, of which copper and aluminium were the Group's major raw materials accounting for approximately 81.1% of cost of goods sold for the period under review. Costs of raw materials increased partly due to the higher purchase costs paid by the Group to certain of its suppliers during the period under review, in return for such suppliers to bear the discounting interests on the bills paid by the Group to the suppliers as settlement. Direct labour costs increased gently and accounted for approximately 1.3% of the total cost of goods sold for the period under review. The remaining balance of approximately 4.2% of the cost of goods sold for the period under review 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

Gross profit increased by approximately RMB154.0 million, or approximately 29.6%, from approximately RMB521.1 million for the six-month period ended 30 June 2017 to approximately RMB675.1 million for the six-month period ended 30 June 2018. Gross profit margin increased slightly to approximately 11.6% for the six-month period ended 30 June 2018 from approximately 11.2% for the six-month period ended 30 June 2017.

Profit for the Period Attributable to Owners of the Company

Profit for the period attributable to owners of the Company increased significantly by approximately 112.8% from approximately RMB37.6 million for the six-month period ended 30 June 2017 to approximately RMB80.0 million for the six-month period ended 30 June 2018. This increase was mainly due to the increase in gross profit and the reduction in other losses, partially offset by the increase in selling and distribution costs, administrative expenses and finance costs during the period under review.

Selling and Distribution Costs

Selling and distribution costs mainly represent 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The selling and distribution costs increased by approximately RMB45.0 million, or approximately 39.6%, from approximately RMB113.5 million for the six-month period ended 30 June 2017 to approximately RMB158.5 million for the six-month period ended 30 June 2018. The increase in selling and distribution costs was mainly due to (i) the increase in marketing expenses for the promotion of the Group's products and the bidding of projects from new customers; (ii) the increase in the transportation costs for delivering products to customers; and (iii) the increase in the number of retail stores in the PRC for direct sales of the Group's products. The selling and distribution costs as a percentage of turnover slightly increased from approximately 2.4% for the six-month period ended 30 June 2017 to approximately 2.7% for the six-month period ended 30 June 2018.

Administrative Expenses

Administrative expenses increased by approximately RMB53.9 million, or approximately 50.9%, from approximately RMB105.9 million for the six-month period ended 30 June 2017 to approximately RMB159.8 million for the six-month period ended 30 June 2018, mainly due to the increase in staff costs and travelling expenses incurred for business development. As a result, the administrative expenses as a percentage of turnover increased from approximately 2.3% for the six-month period ended 30 June 2017 to approximately 2.7% for the six-month period ended 30 June 2018.

Research and Development Costs

Research and development costs increased by approximately 27.5% from approximately RMB21.8 million for the six-month period ended 30 June 2017 to approximately RMB27.8 million for the six-month period ended 30 June 2018. This increase was mainly resulted from the increase in the Group's expenditure on research and development of new products and technology on higher gross margin products during the six-month period ended 30 June 2018, as compared to that in the corresponding period in 2017.

Other Losses

Other losses were composed of bad debt expenses, loss on disposal of property, plant and equipment, write-down of inventories and loss on deregistration of a subsidiary. Other losses decreased by approximately 35.1% from approximately RMB136.0 million for the six-month period ended 30 June 2017 to approximately RMB88.2 million for the six-month period ended 30 June 2018. The decrease in other losses was mainly due to the absence of the write-down of inventories during the period under review (six-month period ended 30 June 2017: RMB122.2 million), partially offset by the increase in allowance for bad and doubtful debts of approximately RMB73.5 million to approximately RMB87.2 million during the period under review (six-month period ended 30 June 2017: RMB13.7 million) due to the adoption of the impairment assessment under the expected credit losses model in accordance with HKFRS 9.

Finance Costs

Finance costs increased by approximately 38.9% from approximately RMB120.8 million for the six-month period ended 30 June 2017 to approximately RMB167.7 million for the six-month period ended 30 June 2018. Finance costs as a percentage of turnover increased from approximately 2.6% for the six-month period ended 30 June 2017 to approximately 2.9% for the six-month period ended 30 June 2018, which was mainly attributed to the increase in the use of interest-bearing bank and commercial bills in financing the Group's operations and the increase in the interest rates of the Group's bank borrowings during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Taxation

The Group's taxation increased by approximately RMB9.3 million, or approximately 58.6%, from approximately RMB15.9 million for the six-month period ended 30 June 2017 to approximately RMB25.2 million for the six-month period ended 30 June 2018. The increase in taxation was due to the increase in taxable income during the period under review. The effective tax rate for the period under review was approximately 23.9% (six-month period ended 30 June 2017: 29.7%). The decrease in the effective tax rate was mainly due to the increase in profits contributed by the subsidiaries of the Company during the period under review, which were endorsed as High and New Technology Enterprises that were charged income tax in the PRC at a reduced income tax rate of 15%.

Financial Position and Liquidity

As at 30 June 2018, total assets of the Group amounted to approximately RMB14,077.1 million (31 December 2017: RMB13,433.9 million).

Non-current assets decreased by approximately 1.2% from approximately RMB1,373.8 million as at 31 December 2017 to approximately RMB1,357.9 million as at 30 June 2018. The decrease was mainly due to the decrease in the deposits paid for the acquisition of property, plant and equipment and the decrease in the loan advanced to an associate during the period under review.

Current assets increased by approximately 5.5% from approximately RMB12,060.1 million as at 31 December 2017 to approximately RMB12,719.2 million as at 30 June 2018, which was mainly due to (i) the increase in pledged bank deposits; and (ii) the increase in bills receivables outstanding, both being a result of the increase in the turnover of the Group during the period under review.

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.

Total bank borrowings increased by approximately 3.6% from approximately RMB3,332.1 million as at 31 December 2017 to approximately RMB3,451.5 million as at 30 June 2018. Of the Group's total bank borrowings as at 30 June 2018, approximately 91.1% of short-term borrowings were made by the Group's subsidiaries in the PRC. These loans were not guaranteed by the Company.

Equity attributable to the owners of the Company was approximately RMB5,237.1 million as at 30 June 2018, which was approximately 1.0% lower than that of approximately RMB5,291.0 million as at 31 December 2017. The decrease was mainly due to the decrease in the accumulated profits as at 1 January 2018 as a result of the initial application of HKFRS 9, which has fully offset the increase in the profits attributable to the owners of the Company during the period under review.

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 RMB2.4 million over total equity of approximately RMB5,237.1 million as at 30 June 2018, decreased from approximately 2.4% as at 31 December 2017 to approximately 0.05%. As compared with the net-debt-to-equity ratio of 17.6% as at 30 June 2017, the net-debt-to-equity ratio of the Group as at 30 June 2018 had also improved. The decrease in net-debt-to-equity ratio as compared with those as at 30 June 2017 and 31 December 2017 respectively, was mainly due to the increase in the use of bank and commercial bills by the Group in financing its operations which required the Group to pledge more of its bank deposits.

In addition, the Group had sufficient committed but unused banking facilities of approximately RMB1,766.5 million as at 30 June 2018 to meet the needs of the Group's business development. There was no material seasonality in relation to the borrowing requirements of the Group.

The Group's borrowings are mainly denominated in Renminbi (the "RMB") and carry interest at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China. The majority of the Group's bank balances and cash is denominated in RMB. As the Group's revenue is mainly denominated in RMB and major expenses are denominated either in RMB or Hong Kong Dollars, the Group faces relatively low currency risk during the period under review.

During the six-month period ended 30 June 2018, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB513,000 (six- month period ended 30 June 2017: RMB517,000) for cash proceeds of approximately RMB262,000 (six-month period ended 30 June 2017: RMB396,000), resulting in a loss on disposal of approximately RMB251,000 (six-month period ended 30 June 2017: RMB121,000).

As at 30 June 2018, the Group has pledged certain of its buildings and machinery with carrying amounts of approximately RMB147.5 million and approximately RMB19.4 million respectively (31 December 2017: RMB194.9 million and RMB29.7 million respectively) to certain banks to secure credit facilities granted to the Group.

During the six-month periods ended 30 June 2018 and 2017, no interest expense has been capitalised.

During the six-month periods ended 30 June 2018 and 2017, the Group did not employ any financial instruments for hedging purposes.

Contingent Liabilities

As at 30 June 2018, neither the Group nor the Company had any significant contingent liabilities.

Use of Net Proceeds received from the Initial Public Offering (the "Listing")

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$448.1 million (equivalent to approximately RMB370.0 million), which were intended to be applied in the manner consistent with that in the prospectus of the Company dated 10 April 2012 had mostly been utilised. As at the date of this 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 by 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook and Prospects

In 2018, both the domestic and the global economies have become unstable under the impact of the diplomatic policies and crises of various countries, in particular the trade tension between the PRC and the United States. Although the Group has operated primarily in the Chinese market and has reaped the benefits from the"One Belt, One Road" Initiative, the "Yangtze River Economic Zone" development plan, the "Greater Bay Area" plan and the "Free Trade Zone" establishments in various provinces in the PRC, the overall development of the Group has been affected considerably by the slowdown in the economic growth in the PRC. However, with further development in the construction of urban underground utility tunnels, sponge cities and smart cities, upgrade of power distribution networks, enhanced control over pollution and smog and the rise of low-carbon, energy-saving and environmental protection awareness in the PRC, the Group remains confident in the prospects of the wire and cable business.

The Group's overall philosophy of its operations was formulated based on its analysis of the macroeconomic conditions in 2018 and the PRC's national policies. In 2018, the Group will adhere closely to two fundamental strategies, "Smart Manufacturing" and "Green Manufacturing", continue to implement its excellent performance management model and further develop its "Two-tier Production Assessment" system and "Two-tier Back-Office Assessment" system, so as to boost the devotion and productivity of its employees and further strengthen and enhance its management foundation. The Group will also continue to devote more efforts to research and development. New products developed by the Group in the first half of 2018 include "aluminum-plastic composite strip ultra-high pressure shielding cable" (鋁塑複合帶屏蔽超高壓電纜), "125℃ high-temperature-resistant PVC insulation material " (125℃耐高溫PVC絕緣料) as well as one of the renowned products, "water resistant rated voltage 220kV XLPE insulation large cross-section segregated conductor power cables" (全阻水型額定電壓220kV 交聯聚乙烯絕緣大截面分割導體電力電纜), which has won the Second Prize of Yixing Science and Technology Progress Award, and "0.6/1kV aluminum alloy conductor XLPE insulation power cables" (0.6/1kV 鋁合金導體交聯聚乙烯絕緣電力電纜), which has passed the technology achievement assessment of the Ministry of Housing and Urban-Rural Development of the PRC. In 2018, the Group has also been focusing on developing quality customers through its long-term strategic relationships maintained with SGCC, China Southern Power Grid Co., Ltd, various provincial and municipal electric companies and reputable listed companies in the PRC. To achieve market expansion, the Group is striving to explore business in the power distribution and railway transportation segments.

While the performance of its sales in the first half of 2018 was impressive, the Group is clearly aware of certain problems in its operation:

1. notwithstanding that the Group believes the Problem Cable Incident was a one-off incident, it will further enhance the awareness of its management on production quality in order to produce products of higher quality; and

2. as at 30 June 2018, the outstanding trade receivables of the Group amounted to approximately RMB4.25 billion, representing an increase of approximately 5.7% as compared with those in the corresponding period in 2017. Although the increase was mainly due to the increase in turnover, the Group will closely monitor and control the collection of its trade receivables so as to speed up the return of funds to the Group. The salespersons, financial personnel and internal auditors of the Group will communicate with customers regularly to request for early settlement of outstanding receivables and, if necessary, take legal actions against the relevant customers.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Jiangnan Group Limited ("Jiangnan" or the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2018 together with the comparative figures for the corresponding period in 2017:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2018

		Six-month period ended	
	Notes	**30.6.2018 RMB'000 (unaudited)**	30.6.2017 RMB'000 (unaudited)
Turnover	3	**5,811,987**	4,667,610
Cost of goods sold		**(5,136,908)**	(4,146,559)
Gross profit		**675,079**	521,051
Other income	4	**35,123**	30,049
Selling and distribution costs		**(158,453)**	(113,481)
Administrative expenses		**(159,805)**	(105,894)
Research and development costs		**(27,758)**	(21,764)
Other losses	5	**(88,209)**	(136,001)
Share of results of associates		**(3,093)**	308
Finance costs		**(167,741)**	(120,807)
Profit before taxation	6	**105,143**	53,461
Taxation	7	**(25,173)**	(15,876)
Profit for the period attributable to owners of the Company		**79,970**	37,585
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**(5,374)**	827
Total comprehensive income for the period attributable to owners of the Company		**74,596**	38,412
Earnings per share — Basic	9	**RMB1.98 cents**	RMB0.93 cents
— Diluted		**RMB1.98 cents**	RMB0.93 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	**869,168**	865,430
Land use rights		**298,942**	302,932
Deposits paid for acquisition of property, plant and equipment		**10,291**	18,539
Goodwill		**109,606**	109,606
Interests in associates		**3,042**	3,111
Loan to an associate		**56,762**	63,756
Available-for-sale investment		**–**	7,090
Equity instrument at fair value through other comprehensive income		**7,090**	–
Deferred tax assets		**3,006**	3,301
		1,357,907	1,373,765
Current assets			
Inventories		**3,860,361**	4,002,379
Trade and other receivables	11	**5,409,699**	4,850,751
Pledged bank deposits		**1,913,143**	1,727,213
Bank balances and cash		**1,535,978**	1,479,759
		12,719,181	12,060,102
Current liabilities			
Trade and other payables	12	**5,239,785**	4,656,385
Amounts due to directors		**4,663**	5,236
Bank borrowings — due within one year	13	**3,451,479**	3,332,080
Taxation payable		**73,658**	79,118
		8,769,585	8,072,819
Net current assets		**3,949,596**	3,987,283
Total assets less current liabilities		**5,307,503**	5,361,048
Non-current liabilities			
Government grants		**278**	741
Deferred tax liabilities		**70,155**	69,300
		70,433	70,041
Net assets		**5,237,070**	5,291,007
Capital and reserves			
Share capital	14	**32,951**	32,951
Reserves		**5,204,119**	5,257,504
Equity attributable to owners of the Company		**5,237,070**	5,290,455
Non-controlling interest		**–**	552
Total equity		**5,237,070**	5,291,007

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Shares held for share award scheme RMB'000 (Note 17)	Employee share-based compensation reserve RMB'000 (Note 17)	Non-distributable reserve RMB'000 (Note b)	Statutory reserve RMB'000 (Note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interest RMB'000	Total RMB'000
As at 1 January 2017	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	–	–	–	–	–	–	–	827	–	827	–	827
Profit for the period	–	–	–	–	–	–	–	–	37,585	37,585	–	37,585
Total comprehensive income for the period	–	–	–	–	–	–	–	827	37,585	38,412	–	38,412
Purchase of shares under share award scheme	–	–	–	(901)	–	–	–	–	–	(901)	–	(901)
Recognition of equity-settled share-based payments	–	–	–	–	(193)	–	–	–	–	(193)	–	(193)
Shares vested under share award scheme	–	–	–	684	(330)	–	–	–	(354)	–	–	–
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(110,636)	(110,636)	–	(110,636)
Transfers	–	–	–	–	–	–	8,710	–	(8,710)	–	–	–
As at 30 June 2017 (unaudited)	32,951	1,983,889	148,696	(41,581)	2,405	77,351	417,258	(27,573)	2,629,826	5,223,222	552	5,223,774
As at 31 December 2017 (audited)	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
Adjustments *(Note 2)*	–	–	–	–	–	–	–	–	(129,063)	(129,063)	–	(129,063)
As at 1 January 2018 (restated)	32,951	1,983,889	148,696	(41,581)	2,786	77,351	423,707	(27,048)	2,560,641	5,161,392	552	5,161,944
Exchange differences arising from translation of a foreign operation	–	–	–	–	–	–	–	(5,374)	–	(5,374)	–	(5,374)
Profit for the period	–	–	–	–	–	–	–	–	79,970	79,970	–	79,970
Total comprehensive income for the period	–	–	–	–	–	–	–	(5,374)	79,970	74,596	–	74,596
Recognition of equity-settled share-based payments	–	–	–	–	1,082	–	–	–	–	1,082	–	1,082
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(552)	(552)
Transfers	–	–	–	–	–	–	12,399	–	(12,399)	–	–	–
As at 30 June 2018 (unaudited)	32,951	1,983,889	148,696	(41,581)	3,868	77,351	436,106	(32,422)	2,628,212	5,237,070	–	5,237,070

(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 the Group's reorganisation in 2012.

(b) The non-distributable reserve represents capitalisation of retained profit 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 Group's PRC subsidiaries while the amounts and allocation basis are decided by their 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash used in operations	**342,558**	(650,621)
PRC income tax paid	**(29,417)**	(59,797)
Net cash generated from (used in) operating activities	**313,141**	(710,418)
Investing activities		
Release of pledged bank deposits	**1,203,241**	998,300
Interest received	**23,733**	20,680
Proceeds from disposal of property, plant and equipment	**262**	396
New pledged bank deposits raised	**(1,389,171)**	(1,134,663)
Deposits paid for acquisition of property, plant and equipment	**(10,291)**	(100,801)
Purchase of property, plant and equipment	**(34,188)**	(29,542)
Advance to an associate	**–**	(12,864)
Net cash used in investing activities	**(206,414)**	(258,494)
Financing activities		
New bank borrowings raised	**4,548,597**	3,117,588
Advances from directors	**672**	1,969
Repayment of bank borrowings	**(4,429,198)**	(2,704,715)
Interest paid	**(167,741)**	(120,807)
Repayment to directors	**(1,245)**	(1,840)
Purchase of shares under share award scheme	**–**	(901)
Net cash (used in) generated from financing activities	**(48,915)**	291,294
Net increase (decrease) in cash and cash equivalents	**57,812**	(677,618)
Cash and cash equivalents at beginning of the period	**1,479,759**	2,172,465
Effect of foreign exchange rate changes	**(1,593)**	532
Cash and cash equivalents at end of the period, represented by bank balances and cash	**1,535,978**	1,495,379

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2018 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current reporting period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses (the "ECL") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions as set out in HKFRS 9, i.e. while the classification and measurement requirements (including impairment) have been applied retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application), they have not been applied to instruments that have already been derecognised as at 1 January 2018. The differences between the carrying amounts of financial instruments as at 31 December 2017 and their carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating the comparative information.

In addition, the Group has applied hedge accounting prospectively.

As the comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement", certain comparative information may not be comparable.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (the "12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for its trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance being equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group will recognise lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investment RMB'000	Equity instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Trade receivables RMB'000	Accumulated profits RMB'000
At 31 December 2017 (audited) — HKAS 39	7,090	–	4,127,898	2,689,704
Effect arising from initial application of HKFRS 9:				
Reclassification				
From available-for-sale investment *(Note a)*	(7,090)	7,090	–	–
Remeasurement				
Impairment under ECL model *(Note b)*	–	–	(129,063)	(129,063)
At 1 January 2018 (unaudited)	–	7,090	3,998,835	2,560,641

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Summary of effects arising from initial application of HKFRS 9 *(continued)*

Notes:

(a) Available-for-sale investment

The Group elected to present in other comprehensive income the fair value changes of its equity investment previously classified as an available-for-sale investment, which was an unquoted equity investment in the amount of RMB7,090,000 that was previously measured at cost less impairment under HKAS 39. This investment is not held for trading and is not expected to be sold in the foreseeable future. At the date of the initial application of HKFRS 9, this unquoted equity investment was reclassified from available-for-sale investment to equity investment at FVTOCI. No fair value adjustment relating to this unquoted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and FVTOCI reserve as at 1 January 2018 because the carrying value of this investment under HKAS 39 was materially equal to its fair value as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the simplified approach of HKFRS 9 to measure ECL which recognises lifetime ECL for the Group's trade receivables. To measure the ECL, trade receivables have been grouped based on their shared credit risk characteristics.

Allowance for bad and doubtful debts for other financial assets at amortised cost mainly comprise pledged bank deposits and bank balances, and are measured on 12m ECL basis. There had been no significant increase in credit risk since initial recognition of these financial assets.

As at 1 January 2018, the additional allowance for bad and doubtful debts of approximately RMB129,063,000 has been recognised against accumulated profits at 31 December 2017. The additional allowance for bad and doubtful debts is charged against the trade receivables.

3. TURNOVER AND SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the 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 performance of the Group.

3. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

The segment results represent the gross profits earned by each segment (segment revenue less segment cost of goods sold), which are internally generated financial information that has been regularly reviewed by the executive Directors. However, other losses, other income, research and development costs, selling and distribution costs, administrative expenses, finance costs and share of results of associates have not been 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.

The information of segment results is as follows:

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
— power cables	**4,021,477**	3,179,633
— wires and cables for electrical equipment	**1,149,722**	913,259
— bare wires	**176,090**	271,631
— special cables	**464,698**	303,087
	5,811,987	4,667,610
Cost of goods sold		
— power cables	**3,565,811**	2,835,885
— wires and cables for electrical equipment	**1,048,957**	832,948
— bare wires	**155,741**	242,904
— special cables	**366,399**	234,822
	5,136,908	4,146,559
Segment results		
— power cables	**455,666**	343,748
— wires and cables for electrical equipment	**100,765**	80,311
— bare wires	**20,349**	28,727
— special cables	**98,299**	68,265
	675,079	521,051

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

	Six-month period ended	
	30.6.2018 RMB'000 (unaudited)	30.6.2017 RMB'000 (unaudited)
Reportable segment results	**675,079**	521,051
Unallocated income and expenses		
— Other income	**35,123**	30,049
— Selling and distribution costs	**(158,453)**	(113,481)
— Administrative expenses	**(159,805)**	(105,894)
— Research and development costs	**(27,758)**	(21,764)
— Other losses	**(88,209)**	(136,001)
— Share of results of associates	**(3,093)**	308
— Finance costs	**(167,741)**	(120,807)
Profit before taxation	**105,143**	53,461

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, other than reportable segment revenue and segment results as disclosed above, no analysis of segment assets and segment liabilities is presented.

Geographical information

More than 90% of the Group's sales were made to customers in the People's Republic of China (the "PRC") (country of domicile) for both reporting periods. More than 90% of the Group's non-current assets were located in the PRC at 30 June 2018 and 31 December 2017.

Information about major customers

Turnover from customers contributing over 10% of the total turnover of the Group in the corresponding periods is as follows:

	Six-month period ended	
	30.6.2018 RMB'000 (unaudited)	30.6.2017 RMB'000 (unaudited)
Customer A[1]	**N/A[2]**	480,227

[1] The customer purchased goods from all segments of the Group during both periods.

[2] No customer has contributed over 10% of the total turnover of the Group in the current reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. OTHER INCOME

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**27,000**	22,019
Government subsidies *(Note)*	**5,591**	4,611
Others	**2,532**	3,419
	35,123	30,049

Note: Included in the amount is approximately RMB463,000 (six-month period ended 30 June 2017: RMB463,000), representing deferred income on government subsidies in relation to capital expenditures on property, plant and equipment recognised in the relevant period over the useful lives of the related assets. No deferred income on government subsidies in relation to capital expenditures on technology research and development projects over the project lives was recognised during the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: RMB 1,333,000). 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, all of which had no specific conditions attached.

5. OTHER LOSSES

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Write-down of inventories *(Note a)*	**–**	122,164
Allowance for bad and doubtful debts *(Note b)*	**87,210**	13,716
Loss on disposal of property, plant and equipment	**251**	121
Loss on deregistration of a subsidiary	**748**	–
	88,209	136,001

Notes:

(a) Due to the changes in market requirements in 2017, 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 their respective estimated net realisable values during the six-month period ended 30 June 2017 was recognised as write-down of inventories in the condensed consolidated financial statements. There was no such write-down of inventories during the six-month period ended 30 June 2018.

(b) Due to the application of, for the first time, the new HKFRS 9, which required ECL to be recognised for the six-month period ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. PROFIT BEFORE TAXATION

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit has been arrived at after charging:		
Depreciation of property, plant and equipment	**48,430**	44,690
Minimum lease payments under operating lease in respect of property	**7,154**	2,407
Operating lease rentals in respect of land use rights	**3,990**	3,460

7. TAXATION

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
PRC income tax	**23,704**	15,856
Hong Kong income tax	**319**	–
	24,023	15,856
Net deferred taxation charge	**1,150**	20
Taxation charge for the period	**25,173**	15,876

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law (the "EIT Law") of the PRC on Enterprise Income Tax (the "EIT") 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 onwards. 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) 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 the 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 from South Africa is calculated at the rate prevailing in South Africa. South Africa corporate tax was calculated at 28% of the assessable profit during both periods.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the six-month period ended 30 June 2018. The Group did not have assessable profit in Hong Kong for the six-month period ended 30 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

During the current interim period, no dividend (six-month period ended 30 June 2017: a final dividend of HK3.1 cents per share in respect of the year ended 31 December 2016) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the six-month period ended 30 June 2017 amounted to HK$125,184,045, net of dividends payable on shares held under the share award scheme of the Company.

The Board does not recommend the payment of any interim dividend for the six-month period ended 30 June 2018 (six-month period ended 30 June 2017: nil).

9. EARNINGS PER SHARE

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

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to the owners of the Company)	**79,970**	37,585

	Six-month period ended	
	30.6.2018	30.6.2017
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares in issue less shares held under the share award scheme for the purpose of calculation of basic earnings per share	**4,038,195**	4,039,328
Effect of dilutive potential ordinary shares: Shares granted under the share award scheme	**5,085**	4,617
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**4,043,280**	4,043,945

The weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share for both periods 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

During the six-month periods ended 30 June 2018 and 2017, the Group incurred the following capital expenditures on property, plant and equipment:

	Six-month period ended	
	30.6.2018	30.6.2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Buildings	**–**	293
Plant and machinery	**15,565**	17,290
Furniture, fixtures and equipment	**580**	1,767
Motor vehicles	**347**	397
Construction in progress	**36,235**	30,634
Total	**52,727**	50,381

During the six-month period ended 30 June 2018, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB513,000 (six-month period ended 30 June 2017: RMB517,000) for cash proceeds of approximately RMB262,000 (six-month period ended 30 June 2017: RMB396,000), resulting in a loss on disposal of approximately RMB251,000 (six-month period ended 30 June 2017: RMB121,000).

As at 30 June 2018, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB147,548,000 and approximately RMB19,443,000 respectively (31 December 2017: RMB194,934,000 and RMB29,656,000 respectively) to certain banks to secure credit facilities granted to the Group.

11. TRADE AND OTHER RECEIVABLES

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables, net	**4,253,600**	4,127,898
Bills receivables	**700,214**	333,449
	4,953,814	4,461,347
Current portion of land use rights	**7,980**	7,980
Deposits paid to suppliers	**250,256**	178,474
Prepayments	**31,008**	28,548
Staff advances	**4,977**	5,698
Tender deposits	**83,620**	102,233
Value-added tax receivables	**1,982**	5,581
Other receivables	**76,062**	60,890
	5,409,699	4,850,751

11. TRADE AND OTHER RECEIVABLES *(continued)*

The Group maintains a defined credit policy. The Group normally allows credit terms ranging from 30 days to 180 days to its trade debtors. The ageing 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 periods is as follows:

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Age		
0 to 90 days	**2,672,044**	2,300,057
91 to 180 days	**651,494**	738,555
181 to 365 days	**866,844**	640,013
Over 365 days	**763,432**	782,722
	4,953,814	4,461,347

Included in the Group's trade and bills receivables balance are debtors with an aggregate carrying amount of approximately RMB2,413,149,000 as at 30 June 2018 (31 December 2017: RMB2,154,179,000), which were past due at the end of the reporting period for which the Group has not provided for impairment loss.

As part of the Group's credit risk management based on its operations, the Group assesses the impairment on the receivables due from its customers using debtors' ageing with the receivables having been grouped by their common risk characteristics that reflect of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted with forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure the relevant information about specific debtors is up-to-date.

During the current interim period, the Group has provided impairment allowance of approximately HK$87,210,000 based on the provision matrix.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Trade payables	**1,739,497**	1,378,870
Bills payables	**2,356,922**	2,265,320
	4,096,419	3,644,190
Payroll and welfare accruals	**52,918**	97,200
Receipts in advance from customers	**745,140**	618,401
Consideration payables *(Note a)*	**130,698**	130,698
Loans advanced from staff *(Note b)*	**145,422**	78,313
Other tax payables	**17,658**	22,040
Other deposits	**310**	440
Other payables and accruals	**51,220**	65,103
	5,239,785	4,656,385

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 which are unsecured, non-interest bearing and repayable on demand.

The Group is normally granted credit terms ranging from 30 days to 90 days by its suppliers. The ageing analysis of trade and bills payables based on the invoice date at the end of the reporting periods is as follows:

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Age		
0 to 90 days	**2,406,229**	1,272,184
91 to 180 days	**887,715**	1,307,058
181 to 365 days	**764,137**	976,131
Over 1 year	**38,338**	88,817
	4,096,419	3,644,190

13. BANK BORROWINGS — DUE WITHIN ONE YEAR

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Secured	**835,943**	893,388
Secured and guaranteed by independent third parties	**321,400**	250,000
Unsecured	**955,400**	1,087,470
Unsecured and guaranteed by independent third parties	**1,338,736**	1,101,222
	3,451,479	3,332,080
The bank borrowings comprise:		
Variable rate borrowings	**683,239**	727,720
Fixed rate borrowings	**2,768,240**	2,557,390
Discounted bills with recourse	**–**	46,970
	3,451,479	3,332,080

Included in bank borrowings are the following amounts denominated in currencies other than the functional currency of the group entity that they relate to:

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
United States dollars	**208,838**	206,395
Hong Kong dollars	**78,175**	77,508
Euro	**279,667**	304,577

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 periods are as follows:

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
For bank borrowings:		
— property, plant and equipment	**166,991**	224,590
— land use rights	**299,582**	303,703
For bank borrowings and bills payables:		
— pledged bank deposits	**1,913,143**	1,727,213
	2,379,716	2,255,506

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. 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 2017, 31 December 2017 (audited) and 30 June 2018 (unaudited)	10,000,000,000	100,000,000	–
Issued and fully paid:			
At 1 January 2017, 31 December 2017 (audited) and 30 June 2018 (unaudited)	4,078,866,000	40,788,660	32,951

15. CAPITAL COMMITMENTS

	30.6.2018 RMB'000 (unaudited)	31.12.2017 RMB'000 (audited)
Capital expenditures contracted for but not provided for in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	**5,649**	11,743

16. CONTINGENT LIABILITIES

As at 30 June 2018, neither the Group nor the Company had any significant contingent liabilities.

17. SHARE AWARD SCHEME

The purposes of the share award scheme of the Company are to recognise the contributions made by the Group's employees, executives, officers and directors and to provide them with incentives in order to retain them for the continuing 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.

17. SHARE AWARD SCHEME *(continued)*

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 (the "Qualified Employees") during the vesting periods pursuant to the share award scheme. Subject to the fulfillment of certain performance conditions set by the Board to each Qualified Employee, 25% of the Awarded Shares shall vest on each of 1 April 2016, 1 April 2017, 1 April 2018 and 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 shares of the Company, the 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 approximately HK$30,182,000 (approximately RM25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to approximately HK$1,289,000 (equivalent to approximately RMB1,082,000) for the six-month period ended 30 June 2018 (credited for the six-month period ended 30 June 2017: HK$219,000 (equivalent to approximately RMB193,000)).

Movements of the shares granted to the Qualified Employees and vested under the share award scheme were as follows:

	Number of shares '000
Outstanding as at 1 January 2017	26,475
Awarded Shares forfeited *(Note a)*	(8,325)
Awarded Shares vested *(Note a)*	(500)
Outstanding as at 31 December 2017 (audited)	17,650
Awarded Shares forfeited *(Note b)*	(9,825)
Outstanding as at 30 June 2018 (unaudited)	7,825

Notes:

(a) 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.

(b) 8,825,000 Awarded Shares were forfeited as certain Qualified Employees were unable to fulfil certain performance conditions. The balance of 1,000,000 Awarded Shares were forfeited since certain employees no longer remained employed with the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. SHARE AWARD SCHEME *(continued)*

Movements of the 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 2017	39,671	49,375	41,364
Shares purchased from the market during the year	1,500	1,033	901
Shares transferred out upon vested	(500)	(831)	(684)
At 31 December 2017 (audited) and 30 June 2018 (unaudited)	40,671	49,577	41,581

18. RELATED PARTIES TRANSACTIONS

Other than the transactions and balances with related parties disclosed in the condensed consolidated statement of financial position as "Amounts due to directors" and "Loan to an associate", and the compensation of the Directors below (including the emoluments of the Directors), the Group had no other significant transactions and balances with related parties during the reporting periods.

Compensation of Directors

The compensation of the Directors during the reporting periods was as follows:

	Six-month period ended	
	30.6.2018 RMB'000 (unaudited)	30.6.2017 RMB'000 (unaudited)
Basic salaries and allowances	**1,049**	1,063
Share-based payments	**277**	(88)
Retirement benefits scheme contributions	**25**	25
	1,351	1,000

The remuneration of the Directors is determined by the remuneration committee of the Board having regard to the performance of the individual Directors and the market trends.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

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

As at 30 June 2018, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Long positions in the issued shares of the Company

Name of Director	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	168,286,000 *(Note 3)*	4.13%
Ms. Xia Yafang	Beneficial owner	1,112,000 *(Note 4)*	0.03%
	Interest of spouse	1,000,000 *(Note 5)*	0.02%
Mr. Hao Minghui	Beneficial owner	1,000,000 *(Note 6)*	0.02%
Mr. Jiang Yongwei	Beneficial owner	1,000,000 *(Note 7)*	0.02%

Notes:

(1) The total number of ordinary shares of the Company in issue as at 30 June 2018 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.

(2) The shares were held by Power Heritage Group Limited ("Power Heritage"), a company wholly-owned by Spectrum Investment (HK) Limited ("Spectrum HK"), which is in turn wholly-owned by 無錫光普投資有限公司, a company wholly-owned by Mr. Chu Hui. Mr. Chu Hui, 無錫光普投資有限公司 and Spectrum HK are 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) 500,000 shares awarded to him pursuant to the share award scheme (the "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) 500,000 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) 500,000 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) 500,000 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) 500,000 shares awarded to him pursuant to the Scheme which are yet to be vested.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executives 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).

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

As at 30 June 2018, the following persons (other than the Directors or chief executives 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 shareholder	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest (Note 1)
Substantial Shareholders			
Ms. Rui Yiyun	Interest of spouse *(Note 2)*	1,427,124,000	34.99%
Power Heritage Group Limited	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%

Notes:

(1) The total number of ordinary shares of the Company in issue as at 30 June 2018 (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, which is in turn wholly-owned by 無錫光普投資有限公司, a company wholly-owned by Mr. Chu Hui.

Save as disclosed above, as at 30 June 2018, the Company has not been notified of any persons who had 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 30 June 2018, 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 30 June 2018, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

EMPLOYEES AND REMUNERATION

As at 30 June 2018, the Group had a total of 3,455 employees. The total staff costs, net of the remuneration of the Directors, amounted to approximately RMB129.2 million for the six-month period ended 30 June 2018. The Group's remuneration policy is based on the position, duties and performance of individual employees. The remuneration of the Group's employees, including their salaries, 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 Board adopted a share award scheme on 9 September 2015 as an incentive to recognise the contributions made by the employees, executives, officers and directors of the Group, to retain them for the continuing operation and development of the Group and to attract suitable personnel for further development of the Group. On 28 January 2016, the Board resolved to grant an aggregate of 35,300,000 shares (the "Awarded Shares") in the capital of the Company to 21 selected officers and employees (the "Qualified Employees") of the Group pursuant to the share award scheme, of whom (i) Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei and Mr. Hao Minghui are executive Directors, and (ii) the remaining 17 Qualified Employees are senior management of the Group. 25% of the Awarded Shares (i.e. 8,825,000 Shares) granted to the Qualified Employees were vested on 1 April 2016. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2017, only 500,000 Awarded Shares were vested then. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2018, no Awarded Share was vested then. Out of the final 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2019, 1,000,000 Awarded Shares were forfeited as certain employees no longer remained employed with the Group during the period under review and the rest of the Awarded Shares (i.e. 7,825,000 Shares) shall be vested on 1 April 2019 subject to the fulfillment of certain performance conditions by the Qualified Employees.

PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment increased from approximately RMB865.4 million as at 31 December 2017 to approximately RMB869.2 million as at 30 June 2018, representing an increase of approximately 0.4%. This increase was mainly attributed to the net effect of addition of machineries for power cable production lines and the depreciation charged during the period under review.

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

For the six-month period ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. 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. However, the Company has not had a separate chairman and chief executive officer during the period 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.

Save as disclosed above, the Company has complied with all the applicable code provisions of the CG Code during the six-month period ended 30 June 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by the 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 (the "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 six-month period ended 30 June 2018.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal 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 six-month period ended 30 June 2018 was noted by the Company.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") has reviewed with management the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and has reviewed the unaudited interim financial statements of the Group for the six-month period ended 30 June 2018 and this report.

During the period under review and as at the date of this report, the members of the Audit Committee were Mr. Poon Yick Pang Philip (chairman), Mr. He Zhisong and Mr. Yang Rongkai, all being independent non-executive Directors.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a vital mission in the process of globalisation of an enterprise. The Group has been maintaining a high standard of social responsibility since its incorporation. The Group considered "contributing to society with the wealth gained therein and to be a responsible corporate citizen" as a long-term and meaningful mission. In the first half of 2018, the Group focused on the creation of social value while ensuring its profitability in order to contribute to the society and realise the integration and consolidation of the sustainable development of the enterprise and the society.

(1) PROTECTION OF THE INTEREST OF THE STAKEHOLDERS

The Group has been continuously perfecting its governance structure as a legal person and adopted the code provisions set out in the CG Code. It has established an interactive platform to communicate with the investors, strictly performed its obligations in disclosure and ensured the information disclosed is true, timely, accurate and complete.

(2) PROTECTION OF THE INTEREST OF THE STAFF

The Group respects and protects the interest of its staff. The Group has devoted much effort in its personnel training. As the Group also cares about the health, safety and satisfaction of its staff, it has created a harmonious and stable employment relationship with its staff which encourages progress for both the staff and the Group.

For the protection of the welfare of its staff, the Group has strictly complied with the labour laws and regulations and the requirements of the governing authorities.

For the education and training of its staff, the Group has provided all-rounded and persistent occupational training to its staff. These training programs aim at stimulating the work enthusiasm of the staff, enhancing the quality of the staff in all aspects and promoting their growth. The Group also shares corporate and industry information on WeChat with its staff.

For occupational health and safety, the Group strictly follows the occupational health and safety management system in its operation. The 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. Various experience activities were organised for the staff during the reporting period. The Group strived to prevent occupational hazards at their early stage, so as to create a safe and healthy working and living environment for its staff. During the reporting period, no event affecting the health and safety of the staff had occurred.

(3) ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT

The Group has established a comprehensive environmental management system, which improves the daily control of the environmental protection work, and incorporates elements of the "low-carbon, energy saving, green, environment-friendly" ideology into every detail of the Group's operations.

To ensure that the Group's carbon emission complies with the required level under ISO 14064-1: 2006, the Group has engaged China Quality Certification Centre to carry out an independent third-party external examination of the Group's greenhouse gas emission every year. The certification issued by China Quality Certification Centre in July 2018 revealed that the Group's wholly-owned subsidiary, Wuxi Jiangnan Cable, has complied with the required level of carbon emission under ISO 14064-1: 2006.

CORPORATE SOCIAL RESPONSIBILITY

(4) PUBLIC RELATION AND SOCIAL WELFARE

The Group adheres to the operation philosophy of "Caring for the community, being people-oriented, morality and profit". In order to carry out its social responsibilities, the Group has focused on active participation in community activities and charity events in the society. Over the years, the Group has made donations to different causes, including cultural education, sports, disaster relief, poverty relief, medicine and sanitation. It has also taken part in different charity activities, such as blood donation.

In the second half of 2018, as a leading enterprise in the industry in the PRC, the Group will continue to carry out its economic, social and environmental responsibilities. It will use its best endeavors to fulfil and realise the expectation of all stakeholders and focus on the creation of social values.