



# 江南集團有限公司

## Jiangnan Group Limited

(Incorporated in the Cayman Islands with limited liability)

### Annual Report 2018

Stock Code: 1366



One of the Largest Suppliers of  
**Electric Wires and Cables**



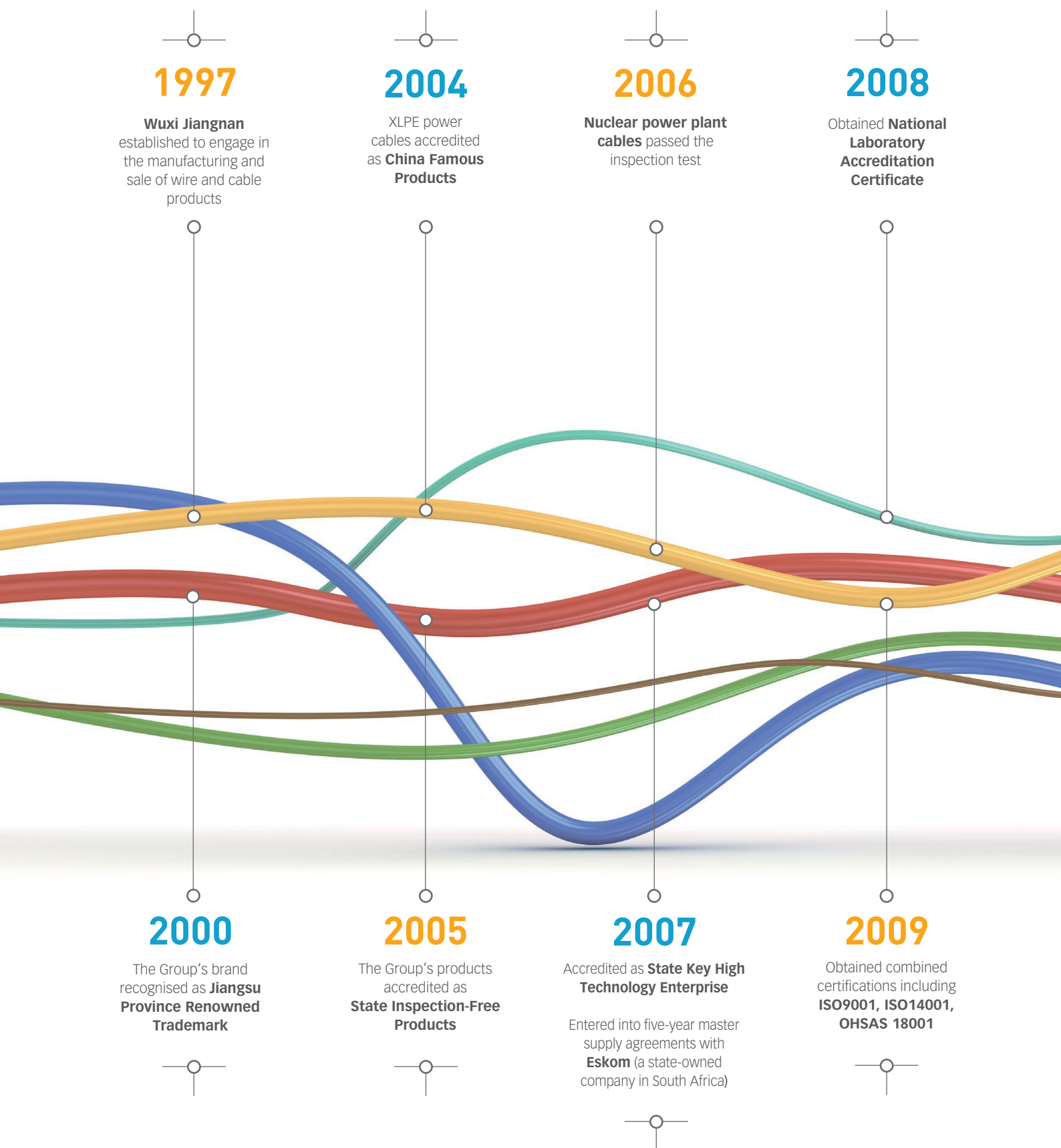
## GROUP'S PHILOSOPHY

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

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## MILESTONES





## MILESTONES

2010

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

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

2012

Listed on the Main Board of the HKEx

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

Established production lines in South Africa

2014

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

Successfully renewed a 5-year contract with **Eskom**

2016

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

Awarded as one of the Top 500 Manufacturing Enterprises in China

2018

**New factory** commenced **production**

**Wuxi Jiangnan Cable** endorsed again as a **High and New Technology Enterprise**

2011

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

2013

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

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

2015

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

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

2017

Awarded "**AEO Customs Advanced Certification**"

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

Acquired 120,000 square metres of factory land

## CORPORATE PROFILE



江南電纜

One of the  
**LARGEST SUPPLIERS**  
of electric wires and cables in  
**CHINA**

國家高新技術企業 中國名牌五彩電纜

Jiangnan Group Limited ("Jiangnan Group" or "Company", together with its subsidiaries, "Group") is one of the largest manufacturers of wires and cables for power transmission, distribution systems and electrical equipment in the People's Republic of China ("China" or "the PRC"). The Group's products are widely used in the power industry (including grid, power plant and renewable energy) and general industries (including metals and mining, oil and gas, transportation, shipbuilding and construction).

The Group offers over 10,000 products under four main categories, namely power cables, wires and cables for electrical equipment, bare wires and special cables. The Group's products carry different characteristics that meet customers' needs, including low smoke and zero halogen, water resistant, heat resistant, optical and electric combined, flame retardant, fire resistant, oil resistant, rodent and termite proof, all-weather and radiation resistant.

The Group's products are primarily marketed and sold under its "SINO", "CS", "五牌" and "Cable" brands, among which the "SINO" brand was recognised as a China Well-known Trademark (中國馳名商標) by the Trademark Office of the State Administration for Industry and Commerce of the PRC and awarded as the State Inspection-Free products. The Group's products were also accredited as "Customer Satisfaction Products" by the China Association for Quality and National Committee for Customers in December 2007.

\* For identification purpose only

## CORPORATE PROFILE



In 2017, the Group obtained “AEO Customs Advanced Certification”\* (海關高級認證 AEO) from the Nanjing Customs Department of the PRC (中華人民共和國南京海關). In 2018, a subsidiary of the Company continued to be ranked as one of the top 500 Chinese Manufacturing Enterprises\* (中國製造業500強) and one of the top 10 Most Competitive Cable Industry Players in China\* (中國線纜行業最具競爭力10強). The subsidiary of the Company was also awarded the titles of “Standardisation of Electrical Industry — Model Enterprise of Good Practice”\* (電器工業標準化良好行為示範企業), “National Customer Satisfaction Enterprise”\* (全國用戶滿意企業), “Top 50 Original Industrial Brand Names in Jiangsu Province”\* (江蘇省自主工業品牌五十強) and “Model Smart Workshop in Jiangsu Province”\* (江蘇省示範智能車間). This subsidiary of the Company was also the only enterprise in Yixing being awarded the title of “Model Platform for Entrepreneurship and Innovation in the Manufacturing Sector of Jiangsu Province”\* (江蘇省製造業「雙創」示範平台).

The Group has strong research and development capabilities. The Group has established a research workstation and a state post-doctoral research workstation jointly with the academicians of the China Academy of Engineering and China Academy of Science. The Group has also participated in the drafting and formulating of 62 national industry standards for the manufacturing processes of power cables, wires and cables for electrical equipment and bare wires. One of these standards was the standard for the rated voltage 0.6/1 kilovolt (“kV”) rubber insulation and sheathing wind power with twist-resistant flexible cables. This was the first standard for wind power cables in China. The Group has 397 patents that are material to the Group’s business in the PRC. Two of the most significant subsidiaries of Jiangnan Group in China, namely, Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) (“Wuxi Jiangnan Cable”) and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) (“Zhongmei Cable”), have been endorsed as High and New Technology Enterprises again by the Yixing Provincial Commission of Science and Technology and are entitled to a reduced PRC income tax rate of 15% until the next renewal of their endorsements in 2021 and 2020 respectively. The Group’s high-tech products include extra-high voltage (“EHV”) cables, ultra-high voltage (“UHV”) aluminum alloy bare wires, photovoltaic solar cables, cables used for wind power, optical fiber composite cables, aluminum-alloy cables, pulse width modulated inverter power supply cables for ships, flexible fire resistant cables and 27.5kV power cables for high-speed railways.

\* For identification purpose only

## CORPORATE PROFILE

With its high quality products, renowned brands and good reputation, strong research and development capabilities as well as manufacturing and production capabilities, the Group has maintained a solid and wide customer base, including certain industry leaders in their respective industries. The Group has supplied products to many prominent infrastructure projects in China, such as those in relation to the Gezhouba hydro-electric power, the West-to-East Gas Pipelines, the National Olympic Sports Centre & six other stadiums for the 2008 Beijing Olympic Games, the Performance Center for the 2010 Shanghai World Expo, the Shanghai World Financial Center, the China Zun, the Beijing Capital International Airport, the Nanjing Lukou International Airport, the Shenzhen International Airport, the Power Transmission from West to East Project (the first  $\pm 800$ kV UHV direct current ("DC") transmission system from Yunnan to Guangdong), the  $\pm 800$ kV UHV DC transmission line from Xiluodu to Jinhua, the  $\pm 1100$ kV UHV DC transmission project from Changji to Guquan, the No.5 line of the Shenzhen Metro Project, the No. 7 line of the Shanghai Metro Project, the No. 8 line of the Beijing Metro Project, the Ningtian Intercity Line Phase 1, the high speed railways from Fuzhou to Xiamen, and the 2014 Youth Olympic in Nanjing. The Group is capable of producing cables to be used in extremely low temperature environments in the polar regions, which have been recognised as a Dedicated Product for China North & South Pole Research by the China Polar Region Research Center.

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

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Chu Hui (*Chairman, Chief Executive Officer and Chairman of the Corporate Governance Committee*)

Xia Yafang (*Executive Vice-president*)

Jiang Yongwei (*Vice-president*)

Hao Minghui

### INDEPENDENT NON-EXECUTIVE DIRECTORS

He Zhisong (*Chairman of the Nomination Committee and the Remuneration Committee*)

Yang Rongkai

Poon Yick Pang Philip (*Chairman of the Audit Committee*)

### AUTHORISED REPRESENTATIVES

Chan Man Kiu

Xia Yafang

### COMPANY SECRETARY

Chan Man Kiu, CPA, FCCA

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### REGISTERED OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 23/F, Metropole Square, 2 On Yiu Street  
Shatin, N.T., Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN CHINA

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

### INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants, Hong Kong

### LEGAL ADVISORS

Conyers Dill & Pearman (Cayman) Limited  
(Cayman Islands laws)  
LCH Lawyers LLP (Hong Kong laws)  
AllBright Law Offices (PRC laws)

### STOCK CODE

1366

### WEBSITE

[www.jiangnangroup.com](http://www.jiangnangroup.com)

### CORPORATE CALENDAR

Annual General Meeting 27 May 2019

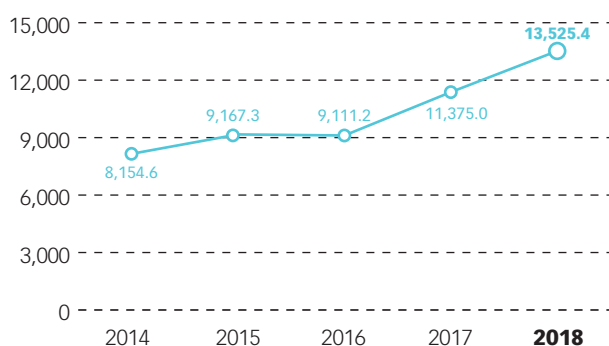


# FINANCIAL HIGHLIGHTS

	Year ended 31 December				
	2014	2015	2016	2017	2018
<b>RESULTS (RMB'000)</b>					
Group turnover	8,154,555	9,167,273	9,111,232	11,374,969	<b>13,525,377</b>
Profit for the year attributable to owners of the Company	626,016	703,261	531,322	103,912	<b>182,421</b>
<b>ASSETS AND LIABILITIES (RMB'000)</b>					
Non-current assets	869,518	1,234,175	1,261,060	1,373,765	<b>1,315,042</b>
Current assets	7,847,989	10,885,090	11,204,561	12,060,102	<b>13,248,862</b>
Current liabilities	5,414,785	7,146,023	7,096,600	8,072,819	<b>9,069,052</b>
Non-current liabilities	72,856	77,317	71,929	70,041	<b>70,427</b>
<b>FINANCIAL RATIOS</b>					
Net margin	7.7%	7.7%	5.8%	0.9%	<b>1.3%</b>
Current ratio	1.45	1.52	1.58	1.49	<b>1.46</b>
<b>FINANCIAL INFORMATION PER SHARE</b>					
Earnings (HK cents)	24.8	22.4	15.2	3.07	<b>5.16</b>
Net assets (HK\$)	1.20	1.43	1.51	1.57	<b>1.53</b>

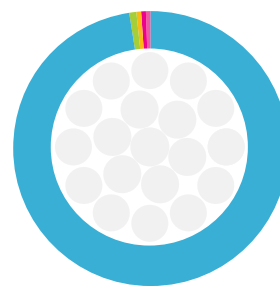
## TOTAL REVENUE

(RMB million)



## GEOGRAPHICAL COMBINATION

- Singapore 0.9%
- Brunei 0.5%
- Africa 0.4%
- Others 0.5%
- Mainland China 97.7%





## TECHNOLOGICAL **INNOVATION**

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

# CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to present the annual report of Jiangnan Group for the year ended 31 December 2018 to our shareholders.

## BUSINESS ENVIRONMENT

In 2018, the national economy in China has grown steadily. According to the National Bureau of Statistics of China, in 2018, China's gross domestic product ("GDP") grew by 6.6% over that in 2017 to RMB90.0 trillion, surpassing RMB90 trillion for the first time, but its growth decreased by 0.3 percentage points from 6.9% in 2017, which was the lowest rate of GDP growth in China in twenty-eight years. National fixed asset investments increased by 5.9% in 2018 over that in 2017 to RMB63.6 trillion, representing a decrease of 1.3 percentage points in their growth as compared with that in 2017. The Chinese economy has experienced downward pressure in 2018, and the demand for power cables has also been affected as the cable industry is closely related to the economic conditions of China.

Given the PRC government's efforts in forging ahead with its supply-side structural reform, the economic structure in China remains promising. According to the National Bureau of Statistics of China, the utilisation rate of industrial production capacity in China was 76.5% in 2018, representing a decrease of 0.5 percentage point over that in 2017. In December 2018, while China's composite Purchasing Managers' Index ("PMI") output index was 53.7%, the manufacturing PMI of the nation was 50.9% and the non-manufacturing Business Activity Index was 54.4%, and they all remained at an expansion stage. As compared with the indices in November 2018, the manufacturing PMI in December 2018 decreased while the non-manufacturing Business Activity Index in December 2018 increased, and the non-manufacturing Business Activity Index was 3.0 percentage points higher than that of the manufacturing PMI, indicating that the non-manufacturing industry's pulling effect on economic growth was further enhanced.

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 set up by power enterprises and institutions in China under the approval of the State Council, the total electricity consumption of the entire nation was 6,844.9 billion kilowatt-hours in 2018, representing an increase of 8.5% over that in 2017. The electricity consumption growth increased by 1.9 percentage points over that in 2017, representing a continuous increase in electricity consumption. In respect of the supply and transmission of electricity, the national infrastructure production capacity was 131.18 million kilowatts, which was higher than that in 2017 by 9.75 million kilowatts. In 2018, the major power generation enterprises in China completed investments in respect of power supply works of RMB272.1 billion, which were 6.2% less than those in 2017. The investments completed under the national grid project amounted to RMB537.3 billion in 2018, representing a slight increase of 0.6% over those in 2017. Among such completed investments, the investments made by the State Grid Corporation of China ("SGCC") in power grids in 2018 amounted to RMB 488.9 billion, which represented a slight increase of 0.7% over those in 2017. The growth in the investments in power grids in 2018 was mainly driven by the growth in power grids with rated voltage of 110 kV or below. As the power supply work investments continued to decline and the main growth driver of the grid investments was the power grids with rated voltage of 110 kV or below which had low gross profit margin that the Group was not keen to participate, the contribution to the Group's sales from its customers in the energy sector in 2018 decreased and the gross profit margin of the Group also decreased.

According to the National Bureau of Statistics of China, national infrastructure investments (excluding the production and supply of electricity, heat, gas and water) in 2018 increased by 3.8% over those in 2017, which was mainly driven by the 8.2% growth in the investments in the road transportation industry. Coupled with China's investments in the construction of infrastructure under the "Belt and Road" Initiative, the overall increase in infrastructure investments has a positive impact on boosting 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 relevant situations in 2018, such as restrictions on the purchase of properties, mortgages and sale of properties. However, the market demand for housing still remained strong and real estate investments still remained stable with a mild increase in 2018. According to the National Bureau of Statistics of China, in 2018, the floor space of commodity housing sold in China increased by 1.3% over that in 2017 to approximately 1,720 million square metres and the sales increased by 12.2% to approximately RMB15 trillion. Investments in real estate development in China reached approximately RMB12 trillion in 2018, representing an increase of 9.5% with 2.5 percentage points over those in the year of 2017. In 2018, the floor space of houses under development increased by 17.2% over that in 2017 to approximately 2,090 million square metres, while the floor space of houses completed decreased by 7.8% over that in 2017 to approximately 930 million square metres. At the end of 2018, the floor space of houses under construction by developers reached approximately 8,220 million square metres, representing an increase of 5.2% as compared with that as at the end of 2017. The land area purchased by real estate developers in 2018 amounted to approximately 290 million square metres, representing an increase of 14.2% over that in 2017. The strong real estate investments in 2018 also benefited the sales of cables. Despite these encouraging statistics, the structure of real estate investments has still aroused concerns. As a major component of real estate investments, land acquisition costs have skyrocketed by 70% in 2018 as compared to those in 2017, while construction and installation 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 the real estate developers of the payables due to their suppliers and even default in payment by some of them.

The rise in the prices of commodities in 2017 including those of copper and aluminium, has continued until the end of the first half of 2018, given the fears of a looming strike in Escondida, the world's largest copper mine located in Chile. However, the prices of commodities started to adjust in the second half of 2018. The average price of copper on the London Metal Exchange Limited ("LME") in 2018 was USD6,524 per tonne, which was 5.9% higher than that in 2017, but it was lower than the average copper price for the six months ended 30 June 2018 of US\$6,913 per tonne, which clearly reflected that the LME average copper price has fallen in the second half of 2018. The average price of aluminium on the LME in 2018 was USD1,671 per tonne, which was 2.2% lower than that in 2017. As the Group prices its products on a cost-plus basis and the majority of its products use copper as conductor, the increase in copper prices has driven up the Group's product prices, resulting in an increase in the revenue of the Group for the year under review.

### BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded a turnover of approximately RMB13,525.4 million, representing an increase of approximately 18.9% as compared with that in 2017. The increase was attributed to the increase in the prices of copper and the gain in market share by the Group due to the consolidation of the cable industry in China.

In 2018, the domestic and global macroeconomic landscapes have brought about severe challenges to the Group'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 the US Section 301 Investigation, imposed an extensive and heavy levy of tariffs on China's imports to the US and restricted investments, mergers and acquisitions in the US. After the commencement of the Sino-US trade dispute, USD200 billion worth of Chinese goods had been imposed with an additional 10% tariff. The US also threatened to slap tariffs on all USD500 billion worth of Chinese imports. As expected, the G20 held in Argentina in the last quarter of 2018 has prevented the Sino-US trade dispute from developing into an extremely unmanageable situation, and the 25% tariff originally scheduled to be imposed by the US on USD200 billion worth of Chinese imports at the beginning of 2019 has been suspended. Both the US and China agreed to a 90-day period of negotiation, which had subsequently been further extended so as to resolve the trade issues between the two countries.

## CHAIRMAN'S STATEMENT

The trade dispute between the US and China, 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 also encounter considerable difficulties. As the impact of the Sino-US trade dispute on the Chinese economy has not been fully reflected in 2018, and the total value of the Group's exports to the US only accounted for approximately 0.1% of the Group's turnover, the impact on the Group's business performance in 2018 as a result of the Sino-US trade dispute was minimal.

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 ("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 normalised monitoring. Under immense pressure from such regulatory scrutiny, consolidation of the wire and cable industry has catalysed and further mergers and acquisitions in the industry will continue to thrive. In such a competitive industry, the Company has stood out and captured considerable opportunities by utilising its competitive advantages in terms of size, quality and brand, but the demand for quality by the customers which required the Group to consume more raw materials 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 the government in China have, to a certain extent, given rise to the increase in the operating costs for enterprises including the Group. For the year ended 31 December 2018, the increase in the Group's turnover, coupled with the decrease in the write-down of its inventories, 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, as well as the new measurement requirements on impairment of trade and other receivables resulting from the initial application of the new accounting standard, Hong Kong Financial Reporting Standard ("HKFRS") 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 impairment losses on financial assets of the Group, which in turn repressed the growth of its net profits. Overall, the profit attributable to the owners of the Company amounted to approximately RMB182.4 million in 2018, representing an increase of approximately 75.6% over that in 2017.

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 sped 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. As at the date hereof, the current monthly average production capacity of the new plants amounted 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 shorten its delivery period and increase its customer satisfaction.

In 2018, there was a year-on-year decrease of 1.3% in the sales generated from the overseas markets of the Group mainly due to the decrease in sales in South Africa during the year under review. 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 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 a 132kV extra-high-voltage cable supply contract in Argentina, which is a breakthrough for the Group in the South American market. Sales to Burnei in 2018 also exceeded RMB60 million.



## CHAIRMAN'S STATEMENT

In 2018, a subsidiary of the Company continued to be ranked as one of the top 500 Chinese Manufacturing Enterprises\* (中國製造業500強) and one of the top 10 Most Competitive Cable Industry Players in China\* (中國纜纜行業最具競爭力10強). The subsidiary of the Company was also awarded the titles of "Standardisation of Electrical Industry — Model Enterprise of Good Practice"\* (電器工業標準化良好行為示範企業), "National Customer Satisfaction Enterprise"\* (全國用戶滿意企業), "Top 50 Original Industrial Brand Names in Jiangsu Province"\* (江蘇省自主工業品牌五十強) and "Model Smart Workshop in Jiangsu Province"\* (江蘇省示範智能車間). This subsidiary of the Company was also the only enterprise in Yixing being awarded the title of "Model Platform for Entrepreneurship and Innovation in the Manufacturing Sector of Jiangsu Province"\* (江蘇省製造業「雙創」示範平台).

### OUTLOOK AND PROSPECTS

As China and the US are expected to reach a deal in the new round of trade negotiation in 2019 to avoid a trade war, the risk of the two countries' economies being adversely affected will be reduced. However, due to the recent series of US allegations against Huawei Technologies Co., Ltd., there is still tension in the Sino-US relations. The Chinese economy is facing downward pressure, which is expected to result in adverse impacts on the business activities in China in 2019. The manufacturing PMI has been falling for four consecutive months from 51.3 in September 2018 to 49.4 in December 2018. According to the report of the Chinese Academy of Social Sciences, the GDP growth rate of China in 2019 is predicted to be 6.3% (6.6% in 2018). While the global economic situation in 2019 will be complicated and grim, the domestic economic environment in China which will be relatively stable will still be faced with uncertainties due to the global economic environment. China's private economy and the real economy will be facing the challenges of structural adjustments, shortage of funds and increase in costs. In order to ensure economic stability, the Chinese government will continue to implement a proactive fiscal policy and a prudent monetary policy. The Chinese government will increase investments, stabilise aggregate demand, boost the economy, and continue with the implementation of the policies and the initiatives it has introduced, including the "Belt and Road" strategy, the "Xiong'an New District" plan, the "Yangtze River Economic Belt" development plan, the "Guangdong-Hong Kong-Macau Greater Bay Area" plan and the establishment of the "Free Trade Zones" in various provinces. These will bring opportunities to the development of the Group in 2019, especially in the following aspects:

1. In 2015, China released the RMB2 trillion distribution network investment plan for 2015 to 2020 (investments of RMB300 billion for 2015 and investments of RMB1.7 trillion for 2016 to 2020). However, the total investments actually made in 2015 to 2017 were RMB870 billion only, which were significantly lower than the amount planned. The probability of accumulating amounts of distribution network investments planned but not yet invested will increase significantly in the future. It is expected that the compounded growth rate of distribution network investments for 2018 to 2020 is expected to reach more than 10%. On 25 December 2018, the SGCC held a press conference to announce the expansion of the scope and intensity of "mixed reform" on the basis of the exploration and reform of allowing mixed ownership, such as incremental power distribution, trading institutions and pumped storage power stations. A series of initiatives such as the opening of ultra-high voltage construction investments to private capital were implemented for the first time. The incremental distribution network reform as a highlight of the electricity reform/distribution will speed up the market-oriented reforms, and the process should be significantly accelerated.
2. The weighting of price as a factor in the bidding process of the tenders of the SGCC has been reduced, together with the safety production meeting held at the beginning of 2018 indicates that the chance of a further bidding price cut will be very slim. There were tenders with rebounds in bidding prices of some products recently. This will help grid equipment providers to stabilise or even increase their gross profit margin.

\* For identification purpose only

## CHAIRMAN'S STATEMENT

3. The SGCC has issued the "Opinions on Serving the Rural Revitalisation Strategy to Promote Electrification" 《關於服務鄉村振興戰略大力推動電氣化的意見》 and plans to fully implement the rural electrification upgrading project over the four years from 2019 to 2022. The primary task and foundation of the upgrading of electrification level are to increase investments in rural power networks in China, improve the infrastructure of rural power grids and rapidly improve the core performance indicators, such as the outage time, the reliability rate of power supply and the coverage rate of underground cabling. In the next three years, the SGCC will invest RMB330 billion to implement the rural grid reform.
4. China Railway Corporation plans to put into operation a new line of 6,800 kilometers in 2019, including 3,200 kilometers of high-speed rail, with a total investments of RMB850 billion, representing the highest level of investments made by China Railway Corporation in history.
5. China continues to increase its use of mixed clean energy. China targets that non-fossil fuels will account for about 15% of its primary energy consumption by 2020, about 30% by 2030 and more than 50% by 2050, which will boost the demand for special cables by clean energy plants.

In view of the above, the Group is still confident about the prospects of the wire and cable business in 2019 despite the challenging economic environment.

Notwithstanding that the market is full of opportunities, there are still problems that the Group needs to solve in 2019. For example, the risk management of the Group needs to be further improved, the market gap needs to be further explored and team building needs to be further strengthened. The Group will focus on the following three areas in its business operations in 2019:

1. strengthening the controls on business risks is the top priority of the Group's business operations;
2. adhering to the product differentiation strategy and actively developing new markets to increase the Group's market share; and
3. enhancing team building of the sales and marketing team of the Group and developing a "one heart" culture among the team members.

### ACKNOWLEDGEMENT

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

**Chu Hui**

*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2019

# MAXIMISE EFFICIENCY

Steady Growth in the Wire and Cable  
industry in the past and for  
the Future



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB13,525.4 million, representing an increase of approximately 18.9% as compared with that for the year ended 31 December 2017, and profit attributable to owners of the Company for the year under review of approximately RMB182.4 million, representing an increase of approximately 75.6% as compared with that for the year ended 31 December 2017. The increase in the profit attributable to owners of the Company for the year under review was mainly due to (i) the increase in turnover as compared with that for the year ended 31 December 2017, which in turn has driven an increase in gross profit for the year under review of approximately 12.3% to approximately RMB1,486.6 million (year ended 31 December 2017: RMB1,323.9 million); and (ii) the reduction in other losses by approximately 50.7% to approximately RMB191.7 million as compared with that of approximately RMB388.8 million for the year ended 31 December 2017, which was mainly due to the significant decrease in the write-down of inventories by approximately 70.4% to approximately RMB113.3 million during the year under review (year ended 31 December 2017: RMB382.2 million), that were partially countervailed by (1) the increase in impairment losses on financial assets (i.e. trade and other receivables), of approximately RMB54.5 million to approximately RMB102.5 million during the year under review (year ended 31 December 2017: RMB48.0 million), as a result of the adoption of the impairment assessment under the expected credit losses model in accordance with HKFRS 9; (2) the increase in selling and distribution costs of approximately RMB62.8 million to approximately RMB339.6 million during the year under review (year ended 31 December 2017: RMB276.8 million); (3) the increase in administrative expenses of approximately RMB58.3 million to approximately RMB294.6 million during the year under review (year ended 31 December 2017: RMB236.3 million); and (4) the increase in finance costs of approximately RMB67.1 million to approximately RMB319.0 million during the year under review (year ended 31 December 2017: RMB251.9 million). The Group's gross profit margin for the year ended 31 December 2018 decreased to approximately 11.0% (year ended 31 December 2017: 11.6%). Basic earnings per share for the year under review was RMB4.52 cents (year ended 31 December 2017: RMB2.57 cents), representing an increase of approximately 75.9%.

## MARKET REVIEW

The year of 2018 was the 10th anniversary of the global financial crisis. Notwithstanding that 10 years has passed since the global financial crisis, the global economy was still fragile with the rise of protectionism and populism over the world. According to the National Bureau of Statistics of the PRC, China's GDP grew by 6.6% in 2018, which was the lowest in its GDP growth in 28 years. The impact of the normalisation of the Federal Reserve's monetary policy on emerging markets, the escalation of the Sino-US trade disputes, the rise of Chinese corporate debt default risk and the market misinterpretation of the gobbling up of struggling private companies by state-owned groups of the PRC have added uncertainties to the domestic economy in the PRC, resulting in significant challenges to be faced by the Group in relation to its business development.

The average price of copper on the London Metal Exchange Limited increased by approximately 5.9% from approximately US\$6,162.8 per tonne in 2017 to approximately US\$6,524.3 per tonne in 2018. The average price of aluminium decreased by approximately 2.2% from approximately US\$1,708.1 per tonne in 2017 to approximately US\$1,670.6 per tonne in 2018. As the Group prices its products on a cost-plus basis, the increase in average copper prices contributed to the increase in the Group's product average selling prices, resulting in an increase in revenue for the year under review as compared with that for the year ended 31 December 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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 (“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 normalised monitoring. Under immense pressure from such regulatory scrutiny, consolidation of the wire and cable industry has catalysed and further mergers and acquisitions in the industry will continue to thrive. In such a competitive industry, the Company has stood out and captured considerable opportunities by utilising its competitive advantages in terms of size, quality and brand, but the demand for quality by the customers which required the Group to consume more raw materials 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 the government in China have, to a certain extent, given rise to the increase in the operating costs for enterprises, including the Group. For the year ended 31 December 2018, the increase in the Group’s turnover, coupled with the decrease in the write-down of its inventories, 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, as well as the new measurement requirements on impairment of trade and other receivables resulting from the initial application of the new accounting standard, HKFRS 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 impairment losses on financial assets of the Group, which in turn repressed the growth of its net profits.

During the year under review, the Group had inventories amounting to approximately RMB68,045,000 being misappropriated by a former salesperson of the Group by means of fake sales contracts. The incident was reported to the Yixing Guanlin Police Station once discovered by the Group and the suspect has been detained by the Yixing Guanlin Police Station for criminal investigation. As at the date of this announcement, to the best knowledge of the Group, the case was still under criminal investigation by the police. To be prudent, the management of the Group has written off the full amount of the inventories and recognised a write-off of inventories of approximately RMB68,045,000. As there is no indication of the existence of any similar incident from the subsequent internal investigation carried out by the Group, the above-mentioned misappropriation of inventories is considered as an isolated incident. In order to prevent the occurrence of similar incidents, the Group’s legal department and contracts department will conduct due diligence on the counterparties to the sales contracts entered into by the Group. The Group’s internal audit department will also carry out more ad hoc checks on the sales operating system of the Group.

As one of the leading manufacturers in the wire and cable industry, the Group will continue to focus on achieving stable development of its core business, i.e. wire and cable manufacturing and distribution. The Group aims to further consolidate its leading position in the market despite the challenging market conditions. In addition, the Group has made considerable efforts in developing high-value products, such as cables used for high speed railway, in order to enrich its product coverage, enhance its profitability and provide impetus for the long-term sustainable growth of the Group.

Production capacity is a critical factor for the business growth of the Group. In 2018, the Group’s annual production capacity has increased by approximately RMB3 billion through renovation and expansion of its new plants, installation of six units of newly imported production equipment and transfer of the production equipment from its existing fifth and sixth workshops. The expansion of the Group’s production capacities can resolve its inventory backlog issue, further improve its delivery period and increase its customer satisfaction.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been actively strengthening its competitiveness by constantly improving its production technology to achieve better cost effectiveness, and strategically utilise the production facility and capacity of each workshop in its production plants in order to match ongoing market demand. The Group recognised the importance of using advanced technologies to continually improve its production efficiency and develop new products. New and higher efficiency machineries imported from overseas reputable suppliers have been used to replace legacy machineries. More funding has been and will be allocated to the continuous upgrade of the product quality and automation system of the Group. The Group's continuous efforts in strengthening its competitiveness will preserve and generate value to the Group over the longer term.

In respect of the Group's overseas business, the long-term cooperative relationships between the Group and its major overseas customers, such as Singapore Power Works Pte Limited and Eskom Holdings SOC Limited, are expected to bring steady overseas revenue to the Group. In addition, the Group has entered into contracts with customers in certain overseas markets in 2018, which will result in revenue to be recognised in 2019.

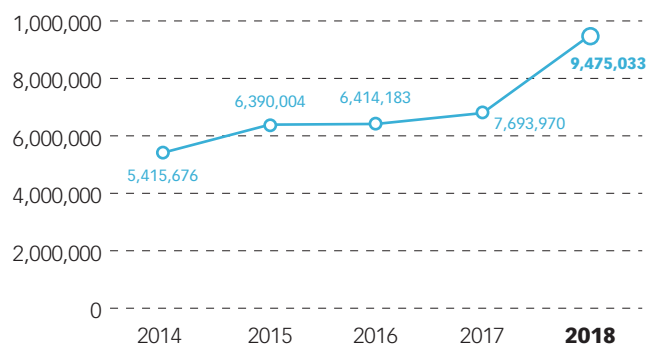
### TURNOVER AND GROSS PROFIT MARGIN OF THE PRODUCTS

	Turnover			Gross Profit Margin		
	2018 RMB'000	2017 RMB'000	% change	2018	2017	% change
Power cables	<b>9,475,033</b>	7,693,970	23.1%	<b>10.8%</b>	11.2%	-0.4%
Wires and cables for electrical equipment	<b>2,538,890</b>	2,256,538	12.5%	<b>7.4%</b>	9.8%	-2.4%
Bare wires	<b>432,152</b>	640,005	-32.5%	<b>9.1%</b>	9.7%	-0.6%
Special cables	<b>1,079,302</b>	784,456	37.6%	<b>22.2%</b>	22.4%	-0.2%
TOTAL	<b>13,525,377</b>	11,374,969	18.9%	<b>11.0%</b>	11.6%	-0.6%

### TURNOVER

#### POWER CABLE PRODUCTS — 70.0% OF TOTAL TURNOVER

(RMB'000)



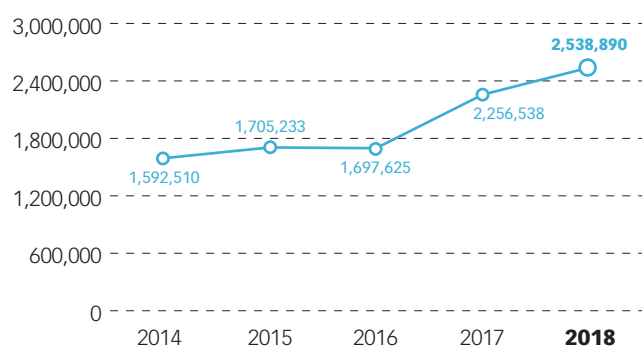
## MANAGEMENT DISCUSSION AND ANALYSIS

Driven by the increase in average copper price and the increase in investments in the infrastructure and real estate development sectors in China, the growth in the Group's power cable products for the year under review remained strong. For the year under review, the turnover of power cables which accounted for approximately 70.0% of the total turnover of the Group amounted to approximately RMB9,475.0 million, representing an increase of approximately 23.1% over that in 2017 of approximately RMB7,694.0 million. However, the sales volume of the Group's power cable products for the year under review decreased by approximately 8.3% to approximately 223,233 km (year ended 31 December 2017: 243,374 km), which was mainly attributed to the decrease in the sales to SGCC as the SGCC had reduced its grid investments in the first half of 2018. Due to the increase in the average copper price and the increase in the Group's sales proportion of higher rated voltage power cables which carried relatively higher selling prices, the average price of power cable products for the year under review increased significantly by approximately 34.3% to approximately RMB42,445 per km (year ended 31 December 2017: RMB31,614 per km).

Gross profit for the year under review increased to approximately RMB1,020.6 million (year ended 31 December 2017: RMB864.8 million), whereas gross profit margin decreased to approximately 10.8% (year ended 31 December 2017: 11.2%) mainly due to the increase in cost of goods sold, which was driven by the increase in raw materials consumed in production as a result of the changes in market requirements in the wire and cable industry.

### WIRES AND CABLES FOR ELECTRICAL EQUIPMENT PRODUCTS — 18.8% OF TOTAL TURNOVER

(RMB'000)

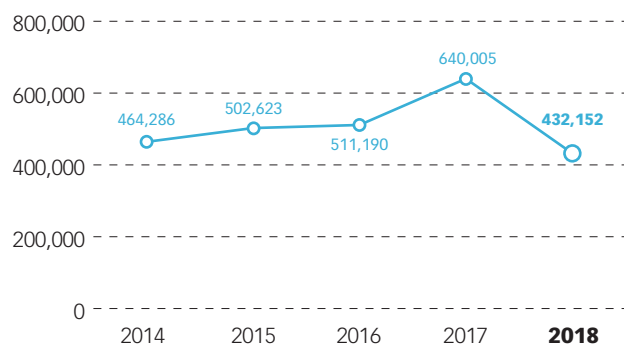


For the year under review, turnover from wires and cables for electrical equipment increased by approximately 12.5% to approximately RMB2,538.9 million (year ended 31 December 2017: RMB2,256.5 million). Sales volume of wires and cables for electrical equipment increased by approximately 7.2% from approximately 1,194,835 km for the year ended 31 December 2017 to approximately 1,281,441 km for the year under review. The average selling price of wires and cables for electrical equipment products increased by approximately 4.9% from approximately RMB1,889 per km for the year ended 31 December 2017 to approximately RMB1,981 per km for the year under review, mainly due to the increase in the average copper price in 2018. For the year under review, gross profit for the year under review decreased to approximately RMB187.1 million (year ended 31 December 2017: RMB221.0 million) and gross profit margin decreased to approximately 7.4% (year ended 31 December 2017: 9.8%), mainly due to the increase in cost of goods sold, which was driven by the increase in raw materials consumed in production as a result of the changes in market requirements in the wire and cable industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BARE WIRE PRODUCTS — 3.2% OF TOTAL TURNOVER

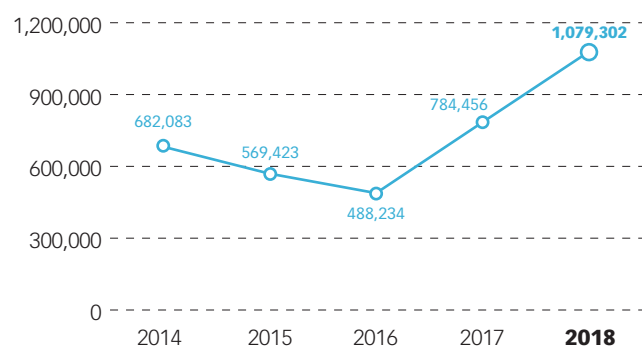
(RMB'000)



Given the Group has abandoned certain tenders of the SGCC which required the delivery of bare wires to distant areas and the drop in the sales of the Group in South Africa, turnover of bare wires decreased significantly by approximately 32.5% to approximately RMB432.2 million for the year under review (year ended 31 December 2017: RMB640.0 million) and sales volume of bare wires decreased significantly by approximately 41.6% to approximately 30,883 tonnes for the year under review (for the year ended 31 December 2017: 52,897 tonnes). However, the average price of bare wire products has increased by approximately 15.7% to approximately RMB13,993 per tonne (year ended 31 December 2017: RMB12,099 per tonne) as the Group had sold more aluminium alloy products and ultra-high voltage bare wires which carried higher selling prices during the year under review. The gross profit decreased by approximately 36.7% to approximately RMB39.5 million for the year under review (year ended 31 December 2017: RMB62.4 million), which was in line with the decrease in the turnover of bare wires in the year under review. The gross profit margin decreased slightly by approximately 0.6% to approximately 9.1% for the year under review (year ended 31 December 2017: 9.7%).

### SPECIAL CABLE PRODUCTS — 8.0% OF TOTAL TURNOVER

(RMB'000)



## MANAGEMENT DISCUSSION AND ANALYSIS

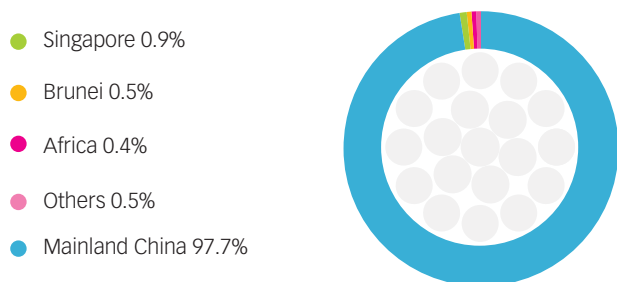
The turnover of special cables in the year under review amounted to approximately RMB1,079.3 million, representing an increase of approximately 37.6% (year ended 31 December 2017: RMB784.5 million). However, the sales volume of special cables for the year ended 31 December 2018 decreased by approximately 14.6% to approximately 53,365 km (year ended 31 December 2017: 62,500 km). The average selling price of special cables increased significantly by approximately 61.1% from approximately RMB12,551 per km for the year ended 31 December 2017 to approximately RMB20,225 per km for the year under review, mainly due to the increase in the average copper price and the increase in the sales of special cables with higher average selling price to clients in the mining and shipbuilding industries during the year under review. The gross profit increased by approximately 36.3% to approximately RMB239.5 million for the year under review (year ended 31 December 2017: RMB175.7 million), which was in line with the increase in the turnover of special cables in the year under review. The gross profit margin decreased slightly by approximately 0.2% to approximately 22.2% during the year under review (year ended 31 December 2017: 22.4%).

### Turnover by geographical markets

The PRC remained the Group's key market during the year under review. Turnover in the PRC market for the year under review increased by approximately 19.5% to approximately RMB13,219.8 million (year ended 31 December 2017: RMB11,065.4 million), which accounted for approximately 97.7% (year ended 31 December 2017: 97.3%) of the Group's total turnover, and such increase was primarily driven by the increase in the sales to customers in the property and infrastructure sectors in the PRC during the year under review.

The turnover contributed by the overseas markets decreased by approximately RMB4.0 million or approximately 1.3% to approximately RMB305.6 million for the year under review (year ended 31 December 2017: RMB309.6 million). This decrease was mainly attributable to the decrease in sales in South Africa during the year under review.

### GEOGRAPHICAL COMBINATION 2018



### 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 19.8% to approximately RMB12,038.8 million during the year under review (year ended 31 December 2017: RMB10,051.1 million). The costs of raw materials accounted for approximately 96.3% of cost of goods sold for the year under review (year ended 31 December 2017: 95.9%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 80.1% of the cost of goods sold for the year under review on aggregate basis (year ended 31 December 2017: 79.5%). Direct labour costs remained at approximately 1.2% of the total cost of goods sold for the year under review (year ended 31 December 2017: 1.3%). The remaining balance of approximately 2.5% of the cost of goods sold for the year under review (year ended 31 December 2017: 2.8%) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross profit and gross profit margin

The gross profit increased by approximately RMB162.7 million, or approximately 12.3%, from approximately RMB1,323.9 million for the year ended 31 December 2017 to approximately RMB1,486.6 million for the year under review. Gross profit margin decreased from approximately 11.6% for the year ended 31 December 2017 to approximately 11.0% for the year under review. The decrease in gross profit margin for the year under review was mainly due to the increase in cost of goods sold driven by the increase in raw materials consumed in production during the year under review.

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

Profit attributable to owners of the Company for the year under review increased by approximately 75.6% from approximately RMB103.9 million for the year ended 31 December 2017 to approximately RMB182.4 million. The increase was mainly attributable to (i) the increase in turnover as compared with that for the year ended 31 December 2017, which in turn has driven an increase in gross profit for the year under review of approximately 12.3% to approximately RMB1,486.6 million (year ended 31 December 2017: RMB1,323.9 million); and (ii) the reduction in other losses by approximately 50.7% to approximately RMB191.7 million as compared with those of approximately RMB388.8 million for the year ended 31 December 2017, mainly due to the significant decrease in the write-down of inventories by approximately 70.4% to approximately RMB113.3 million during the year under review (year ended 31 December 2017: RMB382.2 million), which were partially offset by (1) the increase in impairment losses on financial assets of approximately RMB54.5 million to approximately RMB102.5 million during the year under review (year ended 31 December 2017: RMB48.0 million), as a result of the adoption of the impairment assessment under the expected credit losses model in accordance with HKFRS 9; (2) the increase in selling and distribution costs of approximately RMB62.8 million to approximately RMB 339.6 million during the year under review (year ended 31 December 2017: RMB276.8 million); (3) the increase in administrative expenses of approximately RMB58.3 million to approximately RMB294.6 million during the year under review (year ended 31 December 2017: RMB236.3 million); and (4) the increase in finance costs of approximately RMB67.1 million to approximately RMB319.0 million during the year under review (year ended 31 December 2017: RMB251.9 million).

### Selling and distribution costs

During the year under review, selling and distribution costs mainly represented the Group's salary and welfare expenses for employees involved in selling and distribution activities, transportation costs for delivery of products to customers and other selling expenses, including marketing expenses, advertising and promotion expenses and other miscellaneous expenses.

The selling and distribution costs increased by approximately RMB62.9 million, or approximately 22.7%, from approximately RMB276.8 million for the year ended 31 December 2017 to approximately RMB339.6 million for the year under review. This increase in selling and distribution costs which was in line with the increase in the turnover of the Group, was mainly due to (i) the increase in the marketing expenses incurred for the promotion of the Group's products; (ii) the increase in the costs incurred in bidding projects; (iii) the increase in the transportation expenses for delivering samples and products to customers; and (iv) the increase in marketing and operating costs in relation to the increase in the number of self-operated retail stores in the PRC engaged in direct sales of the Group's products. The selling and distribution costs as a percentage of turnover only increased by approximately 0.1% to approximately 2.5% for the year under review (year ended 31 December 2017: 2.4%).



## MANAGEMENT DISCUSSION AND ANALYSIS

### Administrative expenses

The administrative expenses increased by approximately RMB58.3 million, or approximately 24.7%, from approximately RMB236.3 million for the year ended 31 December 2017 to approximately RMB294.6 million for the year under review, mainly due to (i) the increase in staff costs; (ii) the increase in travelling expenses incurred for business development; and (iii) the increase in the general expenses incurred for daily operations. The administrative expenses as a percentage of turnover increased from approximately 2.1% for the year ended 31 December 2017 to approximately 2.2% for the year under review.

### Research and development costs

The research and development costs increased by approximately 62.6% from approximately RMB35.4 million for the year ended 31 December 2017 to approximately RMB57.5 million for the year under review. This increase was mainly resulted from the increase in spending incurred by the Group during the year under review on technological research and development of new products which are expected to contribute higher gross profit margin to the Group, compared to that incurred in the year ended 31 December 2017.

### Other losses

Other losses were composed of exchange loss, loss on disposal of property, plant and equipment, loss on deregistration of a subsidiary of the Company, impairment loss recognised in respect of goodwill and write-down of inventories. Other losses decreased significantly by approximately 50.7% from approximately RMB388.8 million in the year ended 31 December 2017 to approximately RMB191.7 million in the year under review. This significant decrease in other losses was mainly due to the decrease in the write-down of inventories during the year under review, which was partially offset by (i) the recognition of the impairment of goodwill in the amount of approximately RMB54,831,000 arising from the acquisition of a subsidiary in 2015, namely New Sun Investments Limited ("New Sun"); and (ii) the increase in exchange loss mainly due to the depreciation in the value of the South Africa Rand against the Renminbi ("RMB") during the year under review.

The impairment of goodwill recognised during the year under review set out above was assessed by comparing the recoverable amount (i.e. the value in use) of the cash-generating unit to which the goodwill in relation to New Sun was allocated and its carrying amount as at 31 December 2018. Such goodwill impairment assessment is carried out for each reporting period or more frequently when there is an indication that the cash-generating unit may be impaired. The value in use calculation requires the management to estimate the present value of the future cash flows expected to arise from the relevant cash-generating unit over a 5-year period, based on the past performance of the cash-generating unit, financial budgets approved by management, management's expectations of the market developments, as well as key assumptions, including suitable discount rates, growth rates and gross margin with respect to the relevant cash-generating unit. Based on such assessment and the expected deterioration in the future cash flows of New Sun, the management of the Group determined that an impairment in the amount of approximately RMB54,831,000 in relation to the goodwill of New Sun should be recognised as at 31 December 2018. There was no change to the assessment method used by the Group in its goodwill impairment assessment during the year under review from that used in the previous year. However, the value of the inputs and assumptions used by the Group in its goodwill impairment assessment of New Sun, including the growth rates and the gross margin, had been lowered during the year under review from those previously adopted to reflect the expected deterioration in the business of New Sun.

### Impairment losses on financial assets

Impairment losses on financial assets represented the impairment losses on trade and other receivables, which increased by approximately RMB54.5 million, or approximately 113.6%, from approximately RMB48.0 million for the year ended 31 December 2017 to approximately RMB102.5 million for the year under review. This increase was mainly due to the adoption of the impairment assessment under the expected credit losses model in accordance with HKFRS 9 during the year under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Finance costs

Finance costs increased by approximately 26.6% from approximately RMB251.9 million for the year ended 31 December 2017 to approximately RMB319.0 million for the year under review, 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 year under review. Finance costs as a percentage of turnover increased to approximately 2.4% for the year under review from approximately 2.2% for the year ended 31 December 2017.

## Taxation

The Group's taxation increased by approximately RMB38.2 million, or approximately 92.7%, from approximately RMB41.3 million for the year ended 31 December 2017 to approximately RMB79.5 million for the year under review. This increase in taxation was in line with the increase in taxable income during the year under review. The effective tax rate, which is taxation divided by profit before taxation, for the year under review was approximately 30.3% (year ended 31 December 2017: 28.4%). The increase in effective tax rate was mainly due to the increase in tax non-deductible expenses, such as impairment losses on trade and other receivables, which lowered the amount of profit before taxation during the year under review.

## Staff number and remuneration

The Group's remuneration policy is based on the position, duties and performance of the employees. The remuneration of the Group's employees, including their salary, overtime allowance, bonus and various subsidies, varies according to their positions. The performance appraisal cycle varies according to the positions of the Group's employees. The performance appraisal of the Group's senior management is conducted annually, and that of the department heads is conducted quarterly while that of the Group's remaining staff is conducted monthly. The performance appraisal is supervised by the Group's performance management committee. The total staff costs of the Group amounted to approximately RMB291,887,000 (year ended 31 December 2017: RMB249,441,000) for the year under review. In addition, the Group has provided on-the-job training programmes, internal seminars and an e-learning platform to the staff and the management of the Group in order to enhance their career progression.

During the year under review, there was no change to the overall remuneration structure and process of the Group. The duties performed by the remuneration committee of the Company during the year under review are set out in the section headed "Remuneration Committee" in the Corporate Governance Report. As at 31 December 2018, the Group had 3,184 employees with 3,161 based in the PRC, 18 based in South Africa and 5 based in Hong Kong. A breakdown of employees by function as at the same date is as follows:

Department	Number of employees
Management and administration	268
Finance, control and accounting	123
Procurement	19
Production and quality assurance	2,025
Sales and marketing	608
Engineering, research and development	141
Total	3,184

### Notes:

1. The three independent non-executive Directors are not included above because they are not the Group's employees.
2. 151 professional qualified management personnel are included in the production and quality assurance department and finance, control and accounting department above.
3. Please refer to Note 11 of Notes to the Consolidated Financial Statements for the details of the remuneration of the Directors for the years ended 31 December 2018 and 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EARNINGS PER SHARE

For the year ended 31 December 2018, the basic earnings per share increased to HK5.16 cents (or RMB4.52 cents), as compared with HK3.07 cents (or RMB2.57 cents) for the year ended 31 December 2017. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB182.4 million (year ended 31 December 2017: RMB103.9 million) and on the weighted average number of approximately 4,035,288,000 (year ended 31 December 2017: 4,038,757,000) ordinary shares in issue from which the weighted average number of shares held by the trustee for the share award scheme adopted by the Company on 9 September 2015 has been deducted.

The weighted average number of ordinary shares for the purpose of diluted earnings per share has been adjusted for the effect of the shares granted under the share award scheme of the Company for the year ended 31 December 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

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

## FINANCIAL POSITION OF THE GROUP

### 1. Shareholders' equity

The Group has maintained a solid financial position for the year under review, and the equity attributable to the owners of the Company was approximately RMB5,424.4 million as at 31 December 2018, which was approximately 2.5% higher than the same as at 31 December 2017 of approximately RMB5,290.5 million. The increase in equity attributable to the owners of the Company was mainly attributable to the contribution from net profits for the year under review, which exceeded the decrease in the accumulated profits as at 1 January 2018 as a result of the adjustments in connection with the initial application of HKFRS 9.

### 2. Assets

As at 31 December 2018, total assets of the Group amounted to approximately RMB14,563.9 million (31 December 2017: RMB13,433.9 million), representing an increase of approximately 8.4%.

Non-current assets decreased by approximately 4.3% from approximately RMB1,373.8 million as at 31 December 2017 to approximately RMB1,315.0 million as at 31 December 2018. The decrease was mainly due to the impairment of goodwill arising from the acquisition of a subsidiary, New Sun, in 2015, which was recognised during the year under review.

Current assets increased by approximately 9.9% from approximately RMB12,060.1 million as at 31 December 2017 to approximately RMB13,248.9 million as at 31 December 2018, which was mainly due to (i) the increase in trade receivables (including bills receivables) outstanding; and (ii) the increase in bank balances and pledged bank deposits, both being a result of the increase in the turnover of the Group during the year under review, which was slightly offset by the decrease in the inventories as at 31 December 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2018, the Group had bank balances and cash of approximately RMB2,592.5 million (31 December 2017: RMB1,479.8 million), and pledged bank deposits of approximately RMB2,069.0 million (31 December 2017: RMB1,727.2 million).

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

### 3. Borrowings

Total interest-bearing bank borrowings decreased by approximately 1.7% from approximately RMB3,332.1 million as at 31 December 2017 to approximately RMB3,274.3 million as at 31 December 2018. Of the Group's total bank loans outstanding as at 31 December 2018, approximately 94.1% (31 December 2017: 90.5%) of short-term borrowings were made by the Company's subsidiaries in the PRC, namely Wuxi Jiangnan Cable, Wuxi New Suneng Electric Power Science & Technology Co., Ltd ("Wuxi New Suneng"), Zhongmei Cable, Jiangsu Kai Da Cable Company Limited ("Jiangsu Kai Da") and Wuxi New Sun Cable Company Limited ("Wuxi New Sun"). These loans were not guaranteed by the Company.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash and pledged bank deposits) of approximately negative RMB1,387.1 million over total equity of approximately RMB5,424.4 million as at 31 December 2018, improved from approximately 2.4% as at 31 December 2017 to approximately -25.6% as at 31 December 2018. The improvement in the net-debt-to-equity ratio as at 31 December 2018 as compared with that as at 31 December 2017, was mainly due to (i) the increase in the bank balances and cash resulting from the collection of substantial amounts of the receivables due from the customers near the end of 2018; and (ii) 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.

As at 31 December 2018, the total debt to total assets ratio of the Group, defined as a percentage of total liabilities (current liabilities and non-current liabilities) of approximately RMB9,139.5 million over total assets (current assets and non-current assets) of approximately RMB14,563.9 million, increased slightly to approximately 62.8% from approximately 60.6% as at 31 December 2017. The increase was mainly due to the debt increased to assets increased ratio for the year under review was higher than the total debt to total assets ratio of the Group as at 31 December 2017.

The Group had sufficient committed but unused banking facilities of approximately RMB2,023.1 million as at 31 December 2018 (31 December 2017: RMB2,155.4 million) to meet the needs of the Group's business development. There was no material seasonality in relation to the borrowing requirements of the Group.

As at 31 December 2018, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB181.3 million and approximately RMB27.1 million, respectively (31 December 2017: RMB194.9 million and RMB29.7 million, respectively) to certain banks to secure the credit facilities granted to the Group.

During the year ended 31 December 2018, the Group's borrowings were mainly denominated in RMB and carried interests at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China ("PBOC"). As at 31 December 2018, the majority of the Group's bank balances and cash were denominated in RMB. As the Group's revenue was mainly denominated in RMB and its major expenses were denominated in either RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2018, approximately 85.3% (as at 31 December 2017: 76.8%) of the Group's total bank borrowings carried fixed interest rates.

All of the Group's bank borrowings as at 31 December 2018 and 2017 were due within one year.

During the years ended 31 December 2018 and 2017, no interest expense has been capitalised.

During the years ended 31 December 2018 and 2017, the Group did not employ any financial instruments for hedging purposes.

### CAPITAL COMMITMENT

The capital expenditures in the coming year are expected to be settled by cash through internal resources of the Group. Please refer to Note 34 of Notes to the Consolidated Financial Statements for the details of the capital commitment of the Group as at 31 December 2018. Other than those as disclosed, the management of the Group does not expect there to be any plans for material investments or capital assets in the coming year with reference to the current situation as at the date of this annual report.

### PRINCIPAL RISKS AND UNCERTAINTIES

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

#### 1. Interest rate risk

The Group's fair value and cash flow interest rate risks are mainly related to fixed and variable rate borrowings respectively. In order to exercise prudent management against interest rate risk, the Group has established policies and procedures in relation to the assessment, booking and monitoring of all such financial risks. The Group is planning to leverage on the capital markets platform in Hong Kong to obtain lower cost funding. The Group will continue to review the market trends, as well as its business operation needs and industry position, so as to utilise the most effective tools to manage its interest rate risk.

For the potential financial impact on the Group's performance caused by interest rate risk, please refer to the sensitivity analysis in Note 32 of Notes to the Consolidated Financial Statements.

#### 2. Credit risk

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

The Group's credit risk is primarily attributable to its trade and other receivables. The Group has policies in place to ensure that sales are made to customers following an appropriate credit assessment. In addition, the Directors review the recoverable amount of each trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. As at 31 December 2018, the five largest trade receivables represented approximately 7.0% (2017: 7.3%) of the total trade receivables of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Directors review the recoverable amount of loan to an associate at the end of the reporting period to ensure that adequate impairment losses have been recognised for irrecoverable amounts. The exposure to credit risk is limited.

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

### 3. Commodity risk

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

### 4. Foreign currency risk

The Group had certain transactions that were denominated in foreign currencies, which made its results of operation susceptible to foreign currency risk. During the year ended 31 December 2018, sales denominated in currencies other than the functional currency of the group entity to which it related represented approximately 2.3% (year ended 31 December 2017: 3%) of the Group's sales. The Group has an operating subsidiary in South Africa. As a result of the Group's sales and operations, the Group is exposed to currency fluctuations in United States Dollars, Singapore Dollars, South Africa Rands and Hong Kong Dollars.

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

During the year ended 31 December 2018, the Group did not have a foreign currency hedging policy in respect of its foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

For the potential financial impact on the Group's performance caused by foreign currency risk, please refer to the sensitivity analysis in Note 32 of Notes to the Consolidated Financial Statements.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018. As at the date of this annual report, the Group was not involved in any material legal proceedings, nor was the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it was probable that a loss had been incurred and the amount of the loss could be reasonably estimated.

## PROSPECTS

The details of the Group's prospects are set out in the "Chairman's Statement" in this annual report on pages 13 to 14.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted a code of corporate governance, containing the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and had during the year ended 31 December 2018 ("Relevant Period") complied with the CG Code then in force except for the following deviation.

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not had a separate chairman ("Chairman") and chief executive officer ("Chief Executive Officer") during the year under review. The Board believes that vesting both the roles of Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired as all major decisions are made in consultation with the Board members and the senior management of the Company. The current arrangement will enable the Company to make and implement decisions promptly and efficiently. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

## MODEL CODE FOR SECURITIES TRANSACTIONS

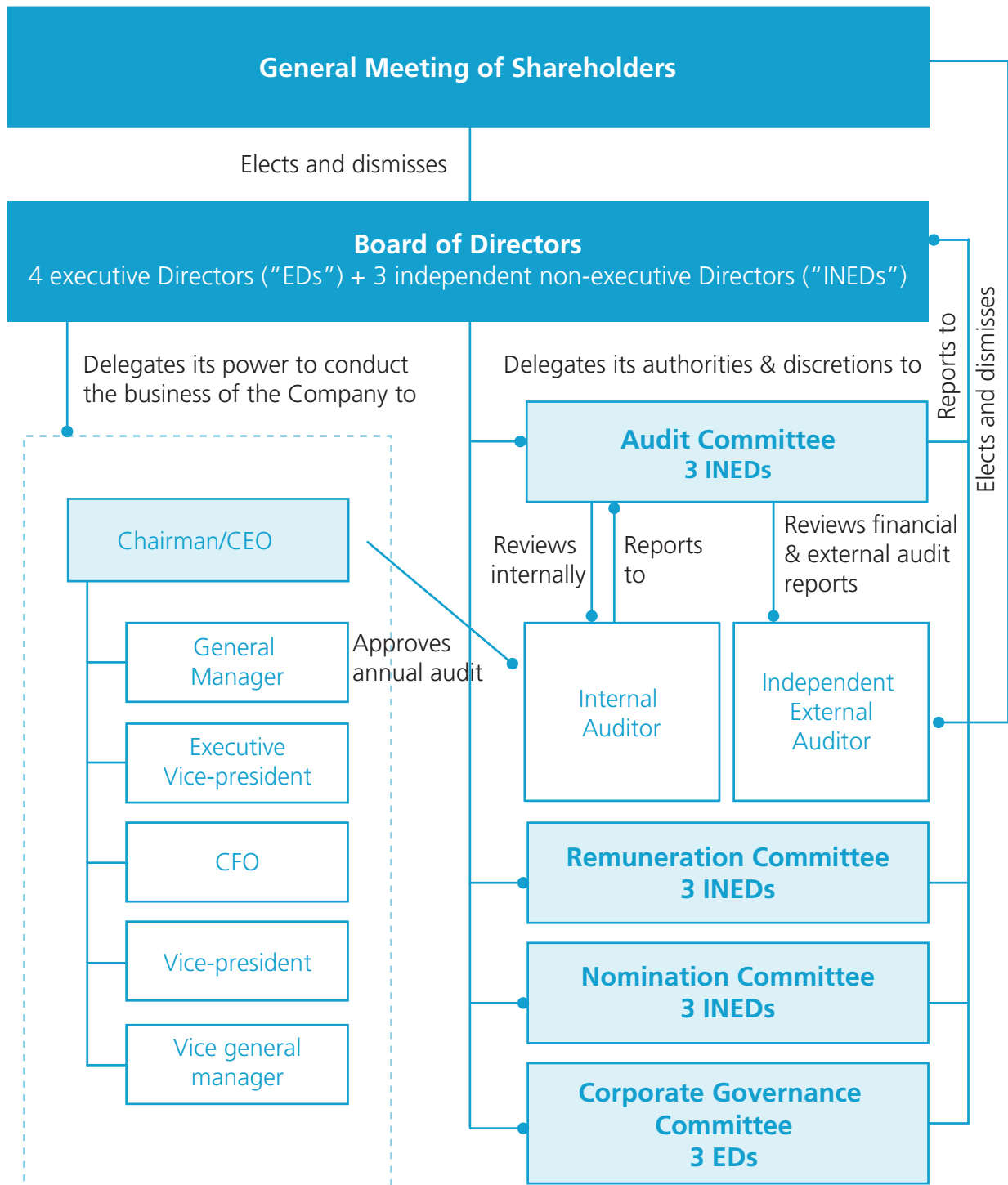
The Company has adopted a code on securities transactions by Directors on terms not less exacting than the required standards contained in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules ("Model Code").

Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2018.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them from dealing in the securities of the Company at any time when they possess inside information in relation to those securities. No incident of non-compliance of the Model Code by any relevant officers or employees during the year ended 31 December 2018 was noted by the Company.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE STRUCTURE



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Board composition

As at 31 December 2018 and the date of this annual report, the Company had four executive Directors and three independent non-executive Directors. Biographical details of the Directors (including the relationships between the Directors) are set out on pages 54 to 56 in this annual report. The Directors bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the provision of effective direction to the Group. The Board considers its current composition to have achieved good diversity in terms of educational background and professional experience.

The Board comprises the following Directors during the year ended 31 December 2018:

### Executive Directors

Mr. Chu Hui (Chairman of the Board, Chief Executive Officer, and Chairman of the Corporate Governance Committee)

Ms. Xia Yafang

Mr. Jiang Yongwei (Member of the Corporate Governance Committee)

Mr. Hao Minghui (Member of the Corporate Governance Committee)

### Independent non-Executive Directors

Mr. Poon Yick Pang Philip (Chairman of the Audit Committee and member of each of the Remuneration Committee and the Nomination Committee)

Mr. He Zhisong (Chairman of each of the Remuneration Committee and the Nomination Committee, and member of the Audit Committee)

Mr. Yang Rongkai (Member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee)

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

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing the appropriate professional qualifications, or accounting or related financial management expertise. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

All independent non-executive Directors have submitted annual confirmations of their independence to the Board pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers all independent non-executive Directors to be independent.

# CORPORATE GOVERNANCE REPORT

## Board responsibilities and delegation

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

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

## Chairman's responsibilities

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

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

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

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

## Chairman and Chief Executive Officer

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

# CORPORATE GOVERNANCE REPORT

## Directors' responsibilities in respect of the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

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

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

## Company secretary

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

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

## Board meetings and attendance

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

# CORPORATE GOVERNANCE REPORT

Four Board meetings and one general meeting ("General Meeting") were held during the year ended 31 December 2018. The attendance record of each Director at the Board meetings and the General Meeting during the year ended 31 December 2018 is set out below:

Directors	Attendance at Board meetings	Attendance at General Meeting
<b>Executive Directors</b>		
Mr. Chu Hui ( <i>Chairman</i> )	4	1
Ms. Xia Yafang	4	1
Mr. Jiang Yongwei	4	1
Mr. Hao Minghui	4	1
<b>Independent Non-executive Directors</b>		
Mr. He Zhisong	4	1
Mr. Yang Rongkai	4	1
Mr. Poon Yick Pang Philip	3	1

## Directors' continuing professional development programme

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors, namely, Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei, Mr. Hao Minghui, Mr. He Zhisong, Mr. Yang Rongkai and Mr. Poon Yick Pang Philip have confirmed that they have complied with Code Provision A.6.5 of the CG Code for the year ended 31 December 2018. The Company has arranged training in relation to amendments to the Listing Rules in 2018 with regard to fund raising and delisting for the Directors. Each Director has attended such training.

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

As at the date of this annual report, the independent non-executive Directors have been re-appointed for a term of three years commencing on 1 March 2018. Pursuant to the articles of association of the Company, all Directors (including the independent non-executive Directors) appointed by the Board shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board), and shall be eligible for re-election at that meeting. All Directors shall be subject to retirement by rotation at least once every three years and the retiring Director shall be eligible for re-election.

## BOARD COMMITTEES

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



# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

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

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

Details of the remuneration packages of the executive Directors and the information about the five highest paid individuals are set out in Note 11 of the Notes to the Consolidated Financial Statements. Remuneration packages of the senior management not disclosed in Note 11 of the Notes to the Consolidated Financial Statements for the year under review were in the band of nil to HK\$1,000,000.

During the year ended 31 December 2018, two Remuneration Committee meetings were held. During the year ended 31 December 2018, the Remuneration Committee had reviewed the remuneration policy of the Company and the remuneration packages of certain Directors, reviewed and made recommendations to the Board in relation to the remuneration packages of the Directors and the senior management, resolved the vesting arrangement of the shares of the Company which were vested on 1 April 2018 under the share award scheme ("Share Award Scheme") adopted by the Company in 2015, and reviewed the sufficiency of the shares held under the Share Award Scheme to be granted to selected employees of the Group.

Membership and Attendance	
Members	Attendance
<b>Independent Non-executive Directors</b>	
Mr. He Zhisong ( <i>Chairman of the Remuneration Committee</i> )	2
Mr. Yang Rongkai	2
Mr. Poon Yick Pang Philip	2

## CORPORATE GOVERNANCE REPORT

### Nomination Committee

On 25 February 2012, the Company established a nomination committee ("Nomination Committee") which has written terms of reference as suggested under the CG Code. The main objectives of the Nomination Committee are to implement a formal, transparent and objective procedure for appointing Board members and evaluating each Board member's performance and to provide clear disclosure of the Company's policies on the nomination and evaluation of Board members in its annual report. The primary functions of the Nomination Committee include: (i) to review the Board's diversity including the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular, the Chairman and the Chief Executive Officer; (iii) to assess the independence of the independent non-executive Directors; (iv) to keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the market place; and (v) to identify individuals suitably qualified to become Board members. The written terms of reference of the Nomination Committee have been posted on the Company's and the Stock Exchange's websites.

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

With effect from 1 January 2019, the Board also has a Director nomination policy ("Director Nomination Policy") for the purpose of enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

According to the Director Nomination Policy, selection criteria for assessing the suitability of a proposed candidate ("Candidate") which shall be taken as reference by the Nomination Committee are listed below:

- (i) integrity and reputation;
- (ii) accomplishment and experience;
- (iii) commitment in respect of available time and relevant interest in the Group;
- (iv) diversity of the Board, including but not limited to gender, age (18 years or above), professional experience, cultural and educational background, skills and knowledge;
- (v) not being prohibited by law from being a Director; and
- (vi) any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its shareholders.

The above selection criteria are not exhaustive and conclusive. The Nomination Committee has the discretion to nominate any person as it considers appropriate.

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, the Board has also amended the Company's procedures for the nomination of Directors, which shall take effect on 1 January 2019. Such amended procedures are set out below:

### **Procedures for nomination of a Director by the Directors**

The Candidate will be asked to submit the necessary personal information, including information as required by Rule 13.51(2) of the Listing Rules and details on the Candidate's character, experience, independence and integrity for the purpose of Rules 3.09, 3.10 and 3.12 of the Listing Rules (when applicable), together with their written consent to be appointed as a Director and the supply and disclosure of his information as required under all applicable laws, rules and regulations. Upon obtaining the required information from the Candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the Candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the Candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company. In particular, the Nomination Committee shall consider the potential contribution a Candidate can bring to the Board in terms of qualification, skills, experience, independence and gender diversity.

### **Procedures for nomination of Director by the shareholders of the Company**

Shareholder(s) of the Company (each a "Shareholder") may nominate person(s), other than a retiring Director and the shareholder himself/herself, to be appointed as a Director ("Proposed Director"). The nominating Shareholder(s) should submit a duly signed written notice, together with the Proposed Director's Curriculum Vitae with contact details, a written record of the Proposed Director's willingness to be elected, copy of identification documents, information and details (including but not limited to details as required by Rule 13.51(2) or such other rules of the Listing Rules to be disclosed by the Company) of the Proposed Director, to the Company's principal place of business in Hong Kong. Acknowledgement of receipt will be provided by the Company. The Nomination Committee will review and consider if the Proposed Director is appropriate to be appointed as a Director. If the Proposed Director is considered appropriate, the resolution for the appointment of the Proposed Director will be inserted to the agenda of the general meeting (either an annual general meeting or extraordinary general meeting) or the adjourned annual general meeting and an announcement in relation such general meeting will be issued by the Company. If the Proposed Director is considered not appropriate, written notice with reasons will be given to the nominating Shareholder(s).

The Board considers that its current composition has achieved good diversity in terms of the education background and professional experience of its members.

During the year ended 31 December 2018, two Nomination Committee meetings were held. During the year ended 31 December 2018, the Nomination Committee had reviewed the structure, the number of members and the composition of the Board. The Nomination Committee had also recommended to the Board the adoption of the amended procedures for the nomination of Directors and the Director Nomination Policy with effect from 1 January 2019.

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

# CORPORATE GOVERNANCE REPORT

## Audit Committee

On 25 February 2012, the Company established an audit committee ("Audit Committee") that has written terms of reference as suggested under the CG Code. The main objective of the Audit Committee is to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries and to act in the interest of the shareholders of the Company as a whole. Its primary duties include: (i) to consider and make recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor; (ii) to approve the remuneration and terms of engagement of the Company's external auditor and any questions of its resignation or dismissal; (iii) to review the Company's financial controls, and its risk management and internal control systems; (iv) to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them; and (v) to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards. The written terms of reference of the Audit Committee have been posted on the Company's and the Stock Exchange's websites. Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the meetings are sent to all committee members for their comments and records within a reasonable time after each meeting.

During the year ended 31 December 2018, two Audit Committee meetings were held. The Audit Committee had reviewed the Company's accounts, results for the year ended 31 December 2017 and results for the six months ended 30 June 2018 and recommended to the Board to adopt, approve and disclose the same in the annual and half-year reports of the Company. The Audit Committee had reviewed and agreed with the audit plan proposed by the Company's independent auditor, Deloitte Touche Tohmatsu. The Audit Committee had also reviewed the risk management and internal control systems adopted by the Group and considered these risk management and internal control systems effective and adequate.

Membership and Attendance	
Members	Attendance
<b>Independent Non-executive Directors</b>	
Mr. Poon Yick Pang Philip ( <i>Chairman of the Audit Committee</i> )	2
Mr. He Zhisong	2
Mr. Yang Rongkai	2

## Corporate Governance Committee

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

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, one Corporate Governance Committee meeting was held. The Corporate Governance Committee had reviewed the Company's status of compliance with the CG Code and the Company's corporate governance report for the year ended 31 December 2017. The Corporate Governance Committee reviewed and approved the disclosure in this annual report regarding the deviation of the Group from Code Provision A.2.1 of the CG Code.

Membership and Attendance		
Members		Attendance
<b>Executive Directors</b>		
Mr. Chu Hui ( <i>Chairman of the Corporate Governance Committee</i> )		1
Mr. Jiang Yongwei		1
Mr. Hao Minghui		1

## ACCOUNTABILITY AND AUDIT

### Financial reporting

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

The responsibilities of Deloitte Touche Tohmatsu, the external auditor of the Company ("Auditor"), are stated in the Independent Auditor's Report of the Company's annual report for the year ended 31 December 2018.

### External auditor's remuneration

The fees in relation to the audit services provided by the Auditor for the year ended 31 December 2018 amounted to HK\$2,820,000 (year ended 31 December 2017: HK\$2,750,000). The Auditor did not provide any non-audit services to the Group for the years ended 31 December 2018 and 2017.

### Risk management and internal control

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

## CORPORATE GOVERNANCE REPORT

The Board (through the internal audit department of the Group) has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering the period from 1 January 2018 to 31 December 2018 in compliance with the requirements under Code Provision C.2 of the CG Code. Except that the Group had inventories amounting to approximately RMB68,045,000 being misappropriated by a former sales person of the Group by means of fake sales contracts during the year under review, no major deficiency on the risk management and internal control systems was noted after the implementation of the solutions to resolve the internal control defects found in the review. The above-mentioned misappropriation of inventories was considered as an isolated incident as there is no indication of existence of any similar incident from the subsequent internal investigation carried out by the Group. In order to prevent the occurrence of similar incidents, the Group's legal department and contracts department will conduct due diligence on the counterparties to the sales contracts entered into by the Group. The Group's internal audit department will also carry out more ad hoc checks on the sales operating system of the Group. The Board will monitor these measures on ongoing basis to ensure that they will be implemented strictly and effectively. The Board considered the risk management and internal control systems of the Group effective and adequate.

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

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

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

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

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

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

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



## CORPORATE GOVERNANCE REPORT

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

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

### **SHAREHOLDERS' RIGHTS**

#### **General meetings**

During the year ended 31 December 2018, the Company had arranged for the notice to its shareholders to be sent for its annual general meeting at least 20 clear business days before the meeting.

At the general meeting of the Company held during the year ended 31 December 2018, the chairman of the meeting had explained the detailed procedures for conducting a poll.

#### **Putting forward proposals at a general meeting**

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

#### **Procedure for shareholders to convene an EGM**

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## Shareholders' enquiries

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

The Company Secretary  
Jiangnan Group Limited  
Unit 09, 23/F, Metropole Square, 2 On Yiu Street, Shatin, N.T., Hong Kong  
Email: joseph.chan@jng1366.com  
Tel No.: +852 3998 3093  
Fax No.: +852 3998 3094

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

## Investor relations and communication

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

- maintain contacts with the Company's shareholders and investors through various channels, such as meetings, telephone and emails;
- from time to time update the Company's news, announcements and developments through the investor relations section of the Company's website on <http://www.jiangnangroup.com> and the Stock Exchange's website on [www.hkexnews.hk](http://www.hkexnews.hk); and
- arrange on-site visits to the Group's operations in Yixing for shareholders of the Company, investors, stock brokers and research analysts.

## Information disclosure

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

## Constitutional documents

During the financial year ended 31 December 2018, there was no change in the Company's constitutional documents.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SCOPE AND REPORTING PERIOD

This is the Environmental, Social and Governance (“ESG”) Report presented by the Company in compliance with the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules. As the Group’s operations are substantially based in the PRC, this ESG Report focuses on the environmental and social performance of the major operating subsidiaries of the Company during the year ended 31 December 2018, namely Wuxi Jiangnan Cable, Wuxi New Suneng, Zhongmei Cable, Jiangsu Kai Da and Wuxi New Sun in the PRC (collectively referred to as “PRC Subsidiaries”), which accounted for over 98% of the turnover of the Group for the year ended 31 December 2018.

## MISSION AND VISION

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

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

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

## ENVIRONMENTAL ASPECTS

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

### Emissions

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has been closely controlling and managing its carbon emissions and other air emissions (including methane, nitrous oxide and hydrofluorocarbons), with a focus on the efficient operation of its factories in the PRC. The Group has also been working to reduce its emissions by improving its energy efficiency and reducing its wastes throughout its daily operations. While the PRC Subsidiaries are not subject to specific laws and regulations in relation to air emissions, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes for their business operations, they have complied with all other relevant laws and regulations in relation to their business operations during the year under review. The Group's major wholly-owned subsidiary, Wuxi Jiangnan Cable, which accounted for over 70% of the turnover of the Group in 2018, has engaged China Quality Certification Centre to carry out an independent third-party external examination of its greenhouse gas emissions during the year under review. The certification issued by China Quality Certification Centre in July 2018 revealed that Wuxi Jiangnan Cable has complied with the required level of carbon emissions under ISO 14064-1:2006.

During the year under review, the major air pollutants emitted by the factories of the PRC Subsidiaries were carbon dioxide, methane, nitrous oxide and hydrofluorocarbons, which were also greenhouse gases. The following table summarises the greenhouse gas emissions generated by the PRC Subsidiaries during the year ended 31 December 2018.

Type of emissions	Quantity (Tonnes in carbon dioxide equivalent)	Intensity (Tonnes/cost of goods sold in thousand USD ("COGS(k\$)"))
Carbon dioxide	72,057	0.04
Methane	306	$0.17 \times 10^{-3}$
Nitrous oxide	28	$0.16 \times 10^{-4}$
Hydrofluorocarbons	1	$0.56 \times 10^{-6}$

To reduce emissions from its daily operations, the Group has used energy-efficient gas-fired boilers instead of coal-fired boilers. Comparing with a coal-fired boiler, approximately 378 tonnes of standard coal can be saved by each gas-fired boiler in a year, assuming each gas-fired boiler operates 7,920 hours annually. The Group has therefore effectively reduced greenhouse gas and tiny dust emissions for the sake of improving the air quality of its factory sites through its use of gas fired boilers. In 2018, the Group has installed air pollutants collectors on certain machineries to reduce the emission of exhaust gas during operations and enhanced the rain and sewage diversion systems in certain of its factories to reduce the emission of sewage.

Furthermore, the Group has installed photovoltaic panels with capacity of approximately 18,900 kW on the roof of its production plants to generate solar energy mainly for the Group's own consumption. In 2018, the photovoltaic panels have generated approximately 19,289 MWh of electricity, where approximately 16,070 MWh was used for factory operations, approximately 1,916 MWh was transmitted to local electricity grids and approximately 1,303 MWh was sold to nearby third-party factories. According to the Group's estimate, the generation of electricity by such photovoltaic panels has allowed the Group to save the use of approximately 7,523 tonnes of standard coal on an annual basis, and reduce approximately 5,247 tonnes of dust emissions, approximately 19,231 tonnes of carbon dioxide emissions, approximately 579 tonnes of sulfur dioxide emissions and approximately 289 tonnes of nitrogen oxides emissions with reference to the emission of one unit electricity generated by coal-fired power plant.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

## Use of resources

The Group is principally engaged in the manufacture and trading of wires and cables. Resources such as raw materials (particularly copper and aluminium), electricity and water, are essential inputs to the Group's business, particularly to support the operation of its factories in the PRC. In 2018, the PRC Subsidiaries have consumed approximately 103,000 MWh or 0.06 MWh/COGS(k\$) (2017: 99,000 MWh or 0.07 MWh/COGS(k\$)) of electricity, approximately 6,083,000 m<sup>3</sup> or 3.38 m<sup>3</sup>/COGS(k\$) (2017: 6,139,000 m<sup>3</sup> or 4.11 m<sup>3</sup>/COGS(k\$)) of natural gas and approximately 580,000 tonnes or 0.32 tonnes/COGS(k\$) (2017: 613,000 tonnes or 0.41 tonnes/COGS(k\$)) of water. Even though the production volume of the Group has increased during the year under review, there has been a decrease in the use of water and natural gas by the Group. The Group has adopted a series of measures, including the recycling of cooling water and modifying the method of consuming natural gas according to industry experts' recommendations to reduce wastage and enhance efficiency during operations.

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

The energy consumed by the factories of the PRC Subsidiaries accounted for most of the energy consumed by the PRC Subsidiaries during the year under review. Wasted raw materials and defective products are reused and recycled in the PRC Subsidiaries' daily production. Water consumed by the PRC Subsidiaries is solely supplied by an authorised water supply corporation, and the PRC Subsidiaries have no issue in sourcing water fit for their purpose. The PRC Subsidiaries require their staff to check the water supply pipes and valves regularly to avoid wastage of water resources.

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## The environment and natural resources

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

The Group was accredited as one of the first state-level "Green Factories" by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部).

## SOCIAL ASPECTS

### Employment and labour practices

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

### Employment

The Group recruits talents in accordance with the principles of openness, equality, competence and competitive selection. The Group's employment practices do not take into consideration factors which are irrelevant to the competence and qualifications of the candidates, such as their gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation and national origin. As at 31 December 2018, the Group had a total of 3,169 (31 December 2017: 3,548) full-time employees employed by the PRC Subsidiaries, whereas the overall employee turnover rate of the PRC Subsidiaries was about 29.3% (2017: 15.9%).

#### Breakdown of employees of the PRC Subsidiaries by gender

Gender	Number of employees	
	31 December 2018	31 December 2017
Male	2,180	2,248
Female	989	1,300
Total	3,169	3,548



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Breakdown of employees of the PRC Subsidiaries by age

Age	Number of employees		Percentage of total workforce	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
18~30	817	964	25.8%	27.2%
31~40	865	779	27.3%	22.0%
41~50	1,017	1,072	32.1%	30.2%
51 and above	470	733	14.8%	20.6%
Total	3,169	3,548	100.0%	100.0%

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

Location of work	Number of employees		Percentage of total workforce	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Mainland China	3,161	3,540	99.7%	99.8%
South Africa	8	8	0.3%	0.2%
Total	3,169	3,548	100.0%	100.0%

Based on the figures stated above, the male to female percentage ratio within the PRC Subsidiaries as at 31 December 2018 was approximately 69:31 (31 December 2017: 63:37). The predominance of males was due to the market practice that a higher proportion of male employees serve as technicians in the workshops of the PRC Subsidiaries. The PRC Subsidiaries will continuously work on improving the balance of gender for those departments that have a heavier weighting of male employees, for example by using new technology to reduce the physical demands of certain jobs and make them suitable for female employees.

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

The Group has adopted a share award scheme ("Share Award Scheme") to recognise the contributions made by certain employees, executives, officers and directors and to give incentives in order to retain them for the continuing operation and development of the Group and to attract suitable talents for further development of the Group. 35,300,000 ordinary shares of the Company were granted to 4 directors and 17 selected employees in 2016 pursuant to the Share Award Scheme. During the year ended 31 December 2018, 8,825,000 of the shares to be awarded were forfeited due to the non-fulfilment of certain performance conditions and 1,000,000 of the shares granted were forfeited according to the Share Award Scheme as certain qualified employees under the Share Award Scheme were no longer employed by the Group.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

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

### **Health and safety**

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

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

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

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

There were no (2017: nil) work-related fatalities and about 4,374 (2017: 5,822) lost days, representing 0.5% (2017: 0.7%) of total work days due to sickness and work injury in relation to the operations of the PRC Subsidiaries in 2018.

\* For identification purpose only

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Development and training

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

In 2017 and 2018, all employees and management of the PRC Subsidiaries have attended different types of training programmes. The following tables summarise the training programmes, mainly internal seminars provided to the employees of the PRC Subsidiaries, which covered various job-related hard and soft skills, such as leadership, team building and personal effectiveness.

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

Gender of attendees	Number of attendance		Number of hours trained		Average number of training hours	
	2018	2017	2018	2017	2018	2017
Male	4,338	6,778	11,332	22,672	2.6	3.3
Female	5,385	3,575	16,002	10,594	3.0	3.0
Total	9,723	10,353	27,334	33,266	2.8	3.2

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

Level of attendees	Number of attendance		Percentage of participants	
	2018	2017	2018	2017
Senior management	131	33	1.3%	0.3%
Middle management	444	144	4.6%	1.4%
General staff	9,148	10,176	94.1%	98.3%
Total	9,723	10,353	100.0%	100.0%

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **Labour standards**

The Group is committed to protecting human rights. The Group complies with all relevant laws and regulations and the requirements of the governing authorities which may have a significant impact on the business of the Group. All the Group's employees are aged over 18 and no child labour has been employed, as it is the Group's policy to perform checks (including employee identity check) at the time of recruitment to prevent and prohibit child labour and forced labour. The Group strives to create an environment of respect, integrity and fairness for its employees. The Group has complied with all relevant laws and regulations in respect of forced labour and child labour in the PRC during the year ended 31 December 2018.

During the year under review, the Group has offered mediation training in relation to labour disputes to certain employees, enabling them to be more familiar with the labour laws and those trained employees are expected to be preliminary mediators to tackle any material labour disputes for the Group as they may arise.

## **Operating practices**

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

## **Supply chain management**

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

## **Product responsibility**

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To protect intellectual property rights, all the Group's products are produced with the relevant certificates. In 2018, the Group has obtained 397 (2017: 394) patents in China for its products, with 62 (2017: 61) products being designated as "High Technology Products" in Jiangsu Province and 5 (2017: 6) products being awarded as "National Key New Products". The Group has established a policy and worked with governmental authorities to prevent fake products from being produced and to protect the Group's intellectual property rights. The Group has established channels for its customers to file their complaints with respect to the products, to allow the Group to assess the situations and follow up with the appropriate actions of redress, including product repair and product recall. In 2018, none of the products of the Group (2017: nil) was recalled due to health and safety reasons and the Group had received 32 (2017: 24) complaints from its customers, where all such complaints had been resolved through communication, repair and redistribution of the products.

There was no known issue regarding material non-compliance with the relevant laws and regulations that would have any significant impact on the business of the Group in respect of health and safety, advertising, labelling and privacy matters relating to the products of the Group during the year ended 31 December 2018.

The Group was awarded a number of awards in relation to product quality, such as 海關高級認證AEO ("AEO Customs Advanced Certification")\* by the Nanjing Customs Department of the PRC (中華人民共和國南京海關), 2017-2019年度江蘇省重點培育和發展的國際知名品牌 ("2017-2019 Jiangsu Material Cultivating and Developing International Famous Brands")\* by the Department of Commerce of Jiangsu Province (江蘇省商務廳), 江蘇省名牌產品證書 ("Jiangsu Famous Brand Certificate")\* by江蘇省品牌戰略推進委員會 ("Jiangsu Brand Strategy Promotion Committee")\*, 全國用戶滿意企業 ("National Customer Satisfaction Enterprise")\* by 全國用戶委員會 ("National User Committee")\*, under中國質量協會 ("China Association for Quality")\* and 江蘇省自主工業品牌五十強 ("Top 50 Original Industrial Brand Names in Jiangsu Province")\* by Jiangsu government.



### Anti-corruption

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

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

\* For identification purpose only

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The non-compliance of any relevant laws and regulations in respect of anti-corruption will have a significant impact on the business of the Group. However, the Group has complied with all such relevant laws and regulations, and no legal case against the Group in respect of bribery, extortion, fraud and money laundering has been recorded during the year ended 31 December 2018.

## Community

### Community investment

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

### Highlights

Beneficiaries	Main Activities
Students	<ul style="list-style-type: none"> <li> <b>Internship Programmes &amp; Site Visits:</b> In 2018, the Group offered 86 internship positions in different departments to students from various colleges and universities, while permanent jobs within the Group had also been offered to those students. The Group also provided site visits to students which allowed the students to communicate directly with the management of the Group for experience sharing. </li> </ul>
Community	<ul style="list-style-type: none"> <li> <b>Employment of Fresh Graduates:</b> In 2018, the Group has employed 291 fresh graduates and 78 of them had tertiary education or above. </li> <li> <b>Donation to Local Village:</b> In 2018, the Group has donated hundreds of thousands RMB to a local village in Jiangsu province for construction of streetlights in order to improve the infrastructure of the village and enhance the safety environment for the local people. </li> </ul>





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Beneficiaries

## Main Activities

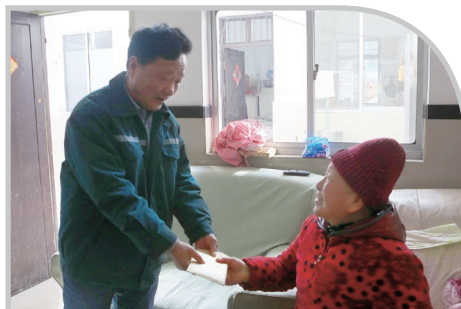


- **Established “Sponsorship and Education Fund” (捐資助學基金):** The Group has sponsored over RMB10 million in infrastructure, construction and education aspects, such as green engineering projects, nursing homes and cinemas in recent years.
- **Committed Donation:** In 2018, the Group has committed to the Yixing City Charity Association to donate at least RMB10 million for the social charity development in the coming ten years.



## Employees

- **Jiangnan Group “Love Fund” (愛心基金):** The Group has established the “Love Fund” to encourage its employees to help the employees in need within the Group and promote mutual assistance within the Group.
- **Visit and Support Employees:** The leaders of the Group visited the employees in need in the PRC and provided aid to them during the Chinese New Year in 2018. In addition, the Group has coordinated with the personnel of the local transportation company to help the employees of the Group to reserve tickets for returning home for the Chinese New Year in 2018.





## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

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

Mr. Chu Hui (“**Mr. Chu**”), aged 47, was appointed as the Chief Executive Officer on 7 July 2014, an executive Director on 18 July 2013 and the Chairman on 30 May 2016. He has also been the chairman of the Corporate Governance Committee since 30 May 2016. He has over 22 years of experience in the wire and cable industry in the PRC. From May 2005 to December 2014, he was the chairman, an executive director and a general manager of Zhongmei Cable, which is now a wholly-owned subsidiary of the Company, and has been responsible for the overall management of production, operation, sales and administration matters in Zhongmei Cable. Mr. Chu has been a director of Extra Fame Group Limited, Jiangnan Cable (HK) Limited and Wuxi Jiangnan Cable, all being wholly-owned subsidiaries of the Company, since July 2014. Mr. Chu has been a director of Jiangnan Power Assets Limited and Jiangnan Power Assets (HK) Limited, both being wholly-owned subsidiaries of the Company, since September 2015. From June 2003 to November 2004, he was the executive director and general manager of Wuxi Zhongnan Mining Cable Co. Ltd. (無錫中南礦纜有限公司). From November 2001 to May 2003, he was the deputy general manager of Wuxi Jiangnan Wire and Cable Co., Ltd (無錫市江南線纜有限公司) (“Wuxi Jiangnan Wire”). From November 1997 to October 2001, he was the factory director of Shanghai Asahi Cable Factory (上海滬旭電纜廠). From December 1994 to October 1997, he was engaged in the sales and marketing of wires and cables.

Mr. Chu became the chairman of the 1st council of Yixing Hi-tech Enterprise Association (宜興市高新技術企業協會) in January 2019. He had also been the vice-chairman of the 2nd Governing Council of the Jiangsu Province Coal Mining Machinery Industry Association, the vice-chairman of the 2nd National Fountain Professional Committee, and a general committee member (常務理事) of Yixing City Charity Association (宜興市慈善會).

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

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

As at the date of this annual report, Mr. Chu is the sole director of each of (i) 無錫光普投資有限公司, which is wholly-owned by Mr. Chu and which wholly-owns Spectrum Investment (HK) Limited (“Spectrum HK”); (ii) Spectrum HK, which wholly-owns Power Heritage Group Limited (“Power Heritage”); and (iii) Power Heritage. Each of 無錫光普投資有限公司, Spectrum HK and Power Heritage is a shareholder of the Company which has an interest in the shares of the Company that would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong.

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

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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

Ms. Xia Yafang ("Ms. Xia"), aged 46, was appointed as a Director on 26 January 2011, the executive vice president on 25 February 2012 and an executive Director on 20 April 2012. She is also a director of a number of companies in the Group. She joined the Group in 2004. Ms. Xia is in charge of the Group's overall day to day operations. She was appointed as the chief engineer of Wuxi Jiangnan Cable in August 2011. Ms. Xia has over 23 years of experience in the wire and cable industry in the PRC. From April 2001 to January 2004, she was a director of the technology department and the vice general manager of Wuxi Jiangnan Wire. From March 1996 to March 2001, Ms. Xia was the engineer for cable research technology and the director of crosslinked cable factory of Wuxi Far East Cable Factory. During this tenure, Ms. Xia was in charge of the production and daily operations of the factory. From July 1992 to February 1996, Ms. Xia worked at Wuxi City Jiangnan Cable Factory as a technician. Ms. Xia graduated from the Nanjing Jinling Institute of Technology (formerly known as Nanjing Polytechnic University) with an associate degree in mechanical and electrical engineering in July 1992. Ms. Xia was qualified as a senior economist in November 2005 and a senior engineer in September 2007, both by the Jiangsu Province Personnel Department.

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

Mr. Jiang Yongwei ("Mr. Jiang"), aged 52, was appointed as a vice president and a Director on 25 February 2012 and an executive Director on 20 April 2012. He is also a member of the Corporate Governance Committee and a director of a number of companies in the Group. Mr. Jiang joined the Group in February 2004. He is the head of the production department responsible for the Group's production management. He has over 24 years of experience in the wire and cable industry in the PRC. Mr. Jiang has been a director of Wuxi Jiangnan Cable since February 2004. Mr. Jiang served as the vice general manager of Wuxi Jiangnan Wire from August 1997 to February 2004 and was responsible for its overall production. From January 1990 to July 1997, Mr. Jiang was a director of the infrastructure department of Wuxi Jiangnan Wire. Mr. Jiang graduated from the Southeast University with a master's degree in business administration in July 2004. Mr. Jiang was qualified as a senior economist in November 2005 by the Jiangsu Province Personnel Department. The spouse of Mr. Jiang is a cousin of the spouse of Mr. Chu, the Chairman, an executive Director and the Chief Executive Officer.

### Mr. Hao Minghui (郝名輝)

Mr. Hao Minghui ("Mr. Hao"), aged 61, was appointed as an executive Director on 1 December 2012. He is also a member of the Corporate Governance Committee. Mr. Hao was responsible for the overseas sales of the Group. He has over 23 years of experience in the wire and cable industry in the PRC. Mr. Hao completed the advanced study of a business management course offered by the Business Management Research Centre of the Renmin University of China in August 2002. In December 2003, Mr. Hao was accredited as a senior member of the Chinese Enterprise Operation and Management Talent Bank by National Talent Service Centre under the Ministry of Human Resources. Mr. Hao has also obtained the qualification certificate of international professional manager issued by the China International Professional Manager Association and China International Talent Development Centre.

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

From January 2011 to September 2012, Mr. Hao worked as the vice-chief engineer of Wuxi Jiangnan Cable. From September 2012 to December 2014, Mr. Hao was the general manager of Wuxi New Suneng, a wholly-owned subsidiary of the Company. From January 2015 to December 2018, Mr. Hao was the vice-general manager of Wuxi Jiangnan Cable.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### Mr. He Zhisong (何植松)

Mr. He Zhisong (“**Mr. He**”), aged 49, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also the chairman of each of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee. Mr. He is a partner of Zhong Lun Law Firm. From July 1996 to February 2002, he worked for the Justice Bureau of Zhuhai, Guangdong. From November 1994 to July 1996, he was a partner of Zhuhai Sanlian Law Firm. From July 1992 to November 1994, Mr. He worked in the government of the Jinwan (formerly known as Sanzao) district of Zhuhai. Mr. He obtained a bachelor’s degree and a master’s degree in law from the Southwest University of Political Science and Law and the Renmin University of China in July 1992 and July 1999, respectively.

#### Mr. Yang Rongkai (楊榮凱)

Mr. Yang Rongkai (“**Mr. Yang**”), aged 59, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Yang has served as the head of the Electric Equipment Inspection and Test Centre Cable Quality Inspection Station of State Grid Electric Science Research Institute (formerly known as Wuhan High Voltage Research Institute, which was then renamed as State Grid Wuhan High Voltage Research Institute in 2007 and was subsequently merged with State Grid Nanjing Automation Research Institute and named as State Grid Electric Science Research Institute in 2008 (hereinafter called “Electric Science Research Institute”)) since July 2008. Mr. Yang has been a member of the Preparatory Team of the Cable Group of the State Grid Electric Power Research Institute since April 2011. Since 2013, he has been the deputy director of the Research and Development Centre of Intelligent Electrical Equipment Division. He was the deputy chief of the Cable Technology Research Institute and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute from January 2007 to July 2008. From December 2005 to December 2006, he was the chief engineer of Cable Technology Research Centre and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute. From October 1985 to December 2006, Mr. Yang held various positions in Electric Science Research Institute, including engineer, senior engineer, and the deputy chief of the Cable Quality Inspection Station. He was appointed as the deputy secretary general at the Electricity Industry Electricity and Cable Standardisation Technology Committee in June 2001. Mr. Yang graduated from the China Electric Power Research Institute with a master’s degree in engineering in December 1985. Mr. Yang was qualified as a senior engineer by the Department of Electric Power of Electric Science Research Institute in December 1992.

#### Mr. Poon Yick Pang Philip (潘翼鵬)

Mr. Poon Yick Pang Philip (“**Mr. Poon**”), aged 49, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also the chairman of the Audit Committee, and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Poon has over 20 years of experience in corporate finance and accounting. Mr. Poon has been serving as an independent non-executive director of China Fordoo Holdings Limited (stock code: 2399), a company listed on the Main Board of the Stock Exchange, with effect from 16 August 2016. Mr. Poon had taken up senior finance positions in companies listed in Hong Kong and the United States of America. Mr. Poon also served various positions in Advent International Corporation, a global private equity firm, and in major listed companies in Hong Kong, including Lenovo Group Limited (stock code: 992) and Sun Hung Kai Properties Limited (stock code: 16) which are listed on the Main Board of the Stock Exchange. From June 2008 to 14 March 2019, Mr. Poon was the chief financial officer and company secretary of Real Nutriceutical Group Limited (stock code: 2010), a company listed on the Main Board of the Stock Exchange, and from 23 August 2011 to 29 September 2018, he was an independent non-executive director of Trigiant Group Limited (stock code: 1300), a company listed on the Main Board of the Stock Exchange. Mr. Poon obtained a bachelor’s degree in commerce from the University of New South Wales in April 1993 and is a holder of a chartered financial analyst charter of the CFA Institute, a certified practising accountant (Australia) and a fellow of the Hong Kong Institute of Certified Public Accountants.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### COMMITTEES

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

Board committee Director	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Chu Hui				C
Jiang Yongwei				M
Hao Minghui				M
He Zhisong	M	C	C	
Yang Rongkai	M	M	M	
Poon Yick Pang Philip	C	M	M	

Notes:

C: Chairman of the relevant Board committees

M: Member of the relevant Board committees

### SENIOR MANAGEMENT

**Mr. Chan Man Kiu (陳文喬) ("Mr. Chan")**, aged 57, is the chief financial officer of the Company and the Company Secretary. He is also a director of a number of companies in the Group. Mr. Chan joined the Group in January 2011. Mr. Chan has over 30 years of experience in the field of finance and operations. From June 2007 to December 2010, Mr. Chan served as the deputy chief operating officer in Xinhua Sports and Entertainment Limited. From March 2001 to May 2007, Mr. Chan was the finance director and managing director in business development of Xinhua Finance Limited. From January 1990 to February 2001, he held different managerial roles in Jardine Fleming. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained his Professional Diploma in Accountancy from the Hong Kong Polytechnic in November 1984 and EMBA from the City University of Hong Kong in November 2003.

**Mr. Cao Shunkang (曹順康) ("Mr. Cao")**, aged 48, is the financial controller of the Group in China. Mr. Cao joined Zhongmei Cable, a subsidiary of the Group in 2004. He was appointed as the financial controller of Wuxi Jiangnan Cable in September 2014 and responsible for accounting and financial matters of the Group's operations in China. From July 1997 to May 2003, Mr. Cao was an accountant in Yixing Xin Fang Supply and Marketing Cooperation. He has rich experience in statistics, accounting, office administration and operation controls. Mr. Cao is a qualified accountant in China. Mr. Cao studied management and economics and graduated from the Jiangnan University in 1991. Mr. Cao furthered his study in finance and graduated from the China University of Geosciences in 2013.

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company and its subsidiaries now composing the Group are principally engaged in the manufacture and trading of wires and cables for power transmission, distribution systems and electrical equipment. The activities of its subsidiaries are set out in Note 40 of Notes to the Consolidated Financial Statements.

The details of business review are set out in the "Management Discussion and Analysis" ("MD&A") in this annual report on pages 17 to 18. A discussion of the future developments of the Group's business is set out in the "Chairman's Statement" in this annual report on pages 13 to 14. An analysis of the Group's performance is set out on pages 18 to 27. A discussion of the Group's principal risks and uncertainties is set out in the MD&A in this annual report on pages 27 to 28.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group values the importance of protecting the environment in its process of operations. The Group has complied with the laws and regulations regarding environmental protection and adopted effective measures to achieve efficient use of resources and energy saving. Green initiatives and measures have been adopted in the Group's operations. More details are set out in the section headed "Environmental Aspects" in the ESG Report in this annual report on pages 43 to 46.

### COMPLIANCE WITH LAWS AND REGULATIONS

The Group has established compliance and risk management policies and procedures, and its senior management has been delegated with the responsibility to monitor the Group's compliance with all significant legal and regulatory requirements. These compliance and risk management policies and procedures are reviewed regularly. As far as the Company is aware, it has complied with the relevant laws and regulations, such as the Law of the PRC on Enterprise Income Tax, the Company Law of the PRC, the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the Labour Law of the PRC, that have a significant impact on the business and operations of the Group in material respects during the year under review.

### RELATIONSHIPS WITH KEY STAKEHOLDERS

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

#### Employees

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

## DIRECTORS' REPORT

### Customers

The Group is committed to offering its customers quality products to the best of its ability. During the year under review, the Group maintained effective communications with its customers through various channels, such as telecommunication through salespersons and interviews with key customers. The Group believes that feedback from its customers' would help the Group to identify areas of improvement and hence to achieve excellence. The Group has established over ten years of business relationships with thousands of customers, most of which are well-known companies such as SGCC, China Southern Power Grid Co., Ltd and the five power generation groups of China. In particular, SGCC is one of the Group's major customers. The credit terms granted to the Group's major customers are in line with those granted to the Group's other customers. The Group is keeping up its efforts in expanding its markets overseas and enlarging its customer pool. For a detailed discussion of the credit terms granted to the Group's customers, and the recoverability and the concentration of credit risk of the Group's trade receivables, please refer to Note 21 of Notes to the Consolidated Financial Statements and the paragraph headed "2. Credit risk" in the section headed "Principal Risks and Uncertainties" of the MD&A in this annual report respectively.

### Suppliers

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

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 75 and the state of affairs of the Group as at 31 December 2018 is set out in the consolidated statement of financial position on page 76.

The Board does not recommend declaration and payment of any final dividend for the year ended 31 December 2018 (year ended 31 December 2017: nil).

### Reserves

Movements in the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 77.

The Directors consider that the Company's reserves available for distribution to shareholders comprise the share premium, the special reserve and the accumulated profits which amounted to approximately RMB4,942,429,000 (31 December 2017: RMB4,822,289,000) in aggregate as at 31 December 2018. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.



## DIRECTORS' REPORT

### Dividend policy

During the year ended 31 December 2018, the Board has adopted a dividend policy ("Dividend Policy") which shall take effect from 1 January 2019. The Dividend Policy allows the Company to declare interim dividends or special dividends from time to time in addition to the final dividends. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

- (i) the financial condition of the Group;
- (ii) the prevailing economic climate;
- (iii) the Group's earnings and cash flow;
- (iv) the Group's expected capital requirements;
- (v) the statutory fund reserve requirements;
- (vi) the retained earnings and distributable reserves of the Company and each of the members of the Group; and
- (vii) any other factors that the Board deems appropriate.

Declaration and payment of dividend by the Company is also subject to the articles of association of the Company and the laws of the Cayman Islands.

The Dividend Policy will continue to be reviewed from time to time by the Board and there can be no assurance that any dividend will be proposed or declared in any given period.

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

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK\$448.1 million (or equivalent to approximately RMB370.0 million), which were intended to be applied in the manner consistent with that as disclosed in the prospectus of the Company dated 10 April 2012, had mostly been utilised. As at 1 January 2018, the unutilised net proceeds from the Listing amounted to approximately HK\$65.8 million. As at the date of this annual report, approximately HK\$115.0 million in aggregate of the net proceeds allocated to set up production facilities for aluminium alloy and double capacity conductors have been fully utilised, approximately HK\$97.0 million in aggregate of the net proceeds allocated to set up a manufacturing facility in South Africa have 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 have been fully utilised, approximately HK\$14.1 million of the net proceeds allocated for acquisitions have been fully utilised in the acquisition of Jiangsu Zengyang Investment Company Limited in 2013, and out of approximately HK\$148.0 million of the net proceeds which were allocated for the expansion of the Group's production facilities for high and extra-high voltage cables, only approximately HK\$91.0 million have been utilised. During the year under review and up to the date of this annual report, approximately HK\$8.8 million of the net proceeds from the Listing were used in the expansion of the Group's production facilities for high and extra-high voltage cables. As at the date of this annual report, the unutilised net proceeds from the Listing amount to approximately HK\$57.0 million, which are expected to be used in the expansion of the Group's production facilities for high and extra-high voltage cables in the coming three years.



# DIRECTORS' REPORT

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 138.

An analysis of the Group's results by segment for the year ended 31 December 2018 is set out in Note 5 of Notes to the Consolidated Financial Statements.

## SHARE CAPITAL

Details of movements during the year ended 31 December 2018 in the share capital of the Company are set out in Note 29 of Notes to the Consolidated Financial Statements.

## SHARE PREMIUM AND RESERVES

Details of movements during the year ended 31 December 2018 in the share premium and reserves of the Group are set out in the consolidated statement of changes in equity on page 77.

## DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report are:

### Chairman, Chief Executive Officer and Executive Director

Mr. Chu Hui

### Executive Directors

Ms. Xia Yafang

Mr. Jiang Yongwei

Mr. Hao Minghui

### Independent Non-executive Directors

Mr. He Zhisong

Mr. Yang Rongkai

Mr. Poon Yick Pang Philip

In accordance with Article 84(1) of the Company's articles of association, each of Mr. Chu Hui, Mr. Hao Minghui and Mr. Poon Yick Pang Philip shall retire by rotation at the forthcoming annual general meeting of the Company ("AGM"), and while all being eligible, only Mr. Chu Hui and Mr. Poon Yick Pang Philip shall offer themselves for re-election.

The Directors' biographical information is set out on pages 54 to 56.

Information regarding the Directors' emoluments is set out in Note 11 of Notes to the Consolidated Financial Statements.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, there are changes in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules in the course of the Directors' term of office during the year under review. Mr. Poon Yick Pang Philip resigned as an independent non-executive director of Trigiant Group Limited (stock code: 1300), a company listed on the Main Board of the Stock Exchange, with effect from 30 September 2018, and as the chief financial officer and the company secretary of Real Nutraceutical Group Limited (stock code: 2010), a company listed on the Main Board of the Stock Exchange, with effect from 15 March 2019.

Save as disclosed above and in this annual report, there are no other matters that need to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules up to the date of this annual report.

## DIRECTORS' REPORT

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company still considers the independent non-executive Directors to be independent.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company pursuant to which he/she agreed to act as a Director for a fixed term of three years with effect from 20 March 2018, save and except for each of Mr. Hao Minghui ("Mr. Hao") and Mr. Chu Hui ("Mr. Chu"), who has separately entered into a service contract and a supplementary contract with the Company, pursuant to which each of Mr. Hao and Mr. Chu was appointed as an executive Director for a fixed term from 30 May 2018 to 27 May 2019 and from 18 July 2015 to 31 December 2020 respectively. Each of the independent non-executive Directors has been re-appointed for a fixed term of three years from 1 March 2018 to 28 February 2021.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of the subsidiaries of the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and associated corporations (within the meaning of Part XV of the SFO, Chapter 571 of the Laws of Hong Kong) as recorded in the register maintained by the Company under section 352 of the SFO, or which were required to notify the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Directors	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest (Note 1)
Mr. Chu Hui	Interest of controlled corporations	1,258,838,000 (Note 2)	30.86%
	Beneficial owner	168,286,000 (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 31 December 2018 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.
- (2) These shares were held by Power Heritage, a company wholly-owned by Spectrum HK, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui. Mr. Chu Hui is deemed to be interested in the shares held by Power Heritage by virtue of the SFO.

## DIRECTORS' REPORT

- (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 ("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 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

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

As at 31 December 2018, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

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

Name of shareholders	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest (Note 1)
<b>Substantial shareholders</b>			
Ms. Rui Yiyun	Interest of spouse	1,427,124,000 (Note 2)	34.99%
Power Heritage	Beneficial owner	1,258,838,000	30.86%
無錫光普投資有限公司	Interest of controlled corporations	1,258,838,000 (Note 3)	30.86%

Notes:

- (1) The total number of ordinary shares of the Company in issue as at 31 December 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, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui.

## DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any persons who had any interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

As at 31 December 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 31 December 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.

### CONNECTED TRANSACTIONS

During the year ended 31 December 2018, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are subject to the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

The Board confirms that the related party transactions as disclosed in Note 36 of Notes to the Consolidated Financial Statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company, its holding company or its subsidiaries was a party and in which a Director had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year ended 31 December 2018.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of this report, none of the Directors had an interest in any business which competes or may compete with the business in which the Group is engaged.

### MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2018.

### NON-COMPETING UNDERTAKING

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

The Company has adopted the following measures to monitor that the Deed of Non-competition has been complied with during the year ended 31 December 2018:

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

## DIRECTORS' REPORT

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

After 31 December 2018, the Covenanter has provided a written annual declaration on compliance with its non-competition undertaking for the year under review to the Company.

### ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Neither the Company nor any of its holding companies was a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year ended 31 December 2018 and up to the date of this report.

### EMOLUMENT POLICY

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

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

### Share award scheme

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

#### **Purposes**

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

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

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

## DIRECTORS' REPORT

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

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

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

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

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

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

### **Restrictions**

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

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

## DIRECTORS' REPORT

### ***Vesting of Awarded Shares***

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

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

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

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

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

### ***Termination***

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

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

During the year ended 31 December 2018, 15,264,000 (year ended 31 December 2017: 1,500,000) Shares were acquired by the Trustee at a total consideration of approximately HK\$5,800,000 (approximately RMB5,121,000) (year ended 31 December 2017: HK\$1,033,000 (approximately RMB901,000)).



## DIRECTORS' REPORT

During the year ended 31 December 2018, no Shares (year ended 31 December 2017: nil) were granted to any Qualified Employees pursuant to the Share Award Scheme and no Shares (year ended 31 December 2017: 500,000 Shares) were vested to the Qualified Employees for the Shares granted on 28 January 2016 pursuant to the Share Award Scheme.

### RETIREMENT BENEFIT SCHEME

With effect from 1 May 2011, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Contributions to the MPF Scheme made by the Group were in accordance with the statutory requirements prescribed by the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (i.e. at least 5% of the employee's monthly relevant income or HK\$1,500 where the employee's monthly relevant income exceeds HK\$30,000 with effect from 1 June 2014). The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. During the year ended 31 December 2018, the Group made contribution to the MPF Scheme amounting to approximately HK\$97,000 (year ended 31 December 2017: HK\$81,200).

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

The Group also makes contributions to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance according to the Social Insurance Law in the PRC. The contribution rates of the Group are based on the local regulations of the social insurance scheme in Yixing, which is 8% for basic pension insurance, 9% for basic medical insurance, 1% for unemployment insurance, 2% for work-related injury insurance and 0.5% for maternity insurance respectively, and the contributions made were based on the average salary of the workers in Yixing. During the year ended 31 December 2018, the Group made contributions in accordance with the Social Insurance Law in the PRC amounting to approximately RMB47.5 million (year ended 31 December 2017: RMB40.3 million).

### PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company and its subsidiaries is currently in force and was in force throughout the year under review. The Company has also taken out and maintained appropriate insurance cover to indemnify the directors of the Company and its subsidiaries for liabilities that may arise out of the corporate activities in the Group. The insurance coverage is reviewed on an annual basis. During the years ended 31 December 2018 and 2017, no claims were made against the directors of the Company and its subsidiaries.

### PRE-EMPTIVE RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

### CHARITABLE DONATIONS

Donations made by the Group to external approved charitable organisations during the year ended 31 December 2018 amounted to approximately RMB615,000 (year ended 31 December 2017: RMB400,000).

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's largest customer accounted for approximately 4.2% (year ended 31 December 2017: 8.7%) of the Group's revenue and the five largest customers of the Group accounted for approximately 12.7% (year ended 31 December 2017: 14.5%) of the Group's revenue. For the year ended 31 December 2018, the Group's largest supplier accounted for approximately 30.7% (year ended 31 December 2017: 37.1%) of the Group's purchases and the five largest suppliers of the Group accounted for approximately 62.4% (year ended 31 December 2017: 71.7%) of the Group's purchases for the year under review.

At no time during the year ended 31 December 2018 did a Director, a close associate of a Director or a shareholder whom to the knowledge of the Directors owns more than 5% of the Company's issued share capital have an interest in any of the Group's five largest customers or suppliers.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

### AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2018. A resolution will be proposed for approval by shareholders at the AGM to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Chu Hui**

*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2019

## INDEPENDENT AUDITOR'S REPORT

# Deloitte.

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### TO THE SHAREHOLDERS OF JIANGNAN GROUP LIMITED

*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Jiangnan Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 137, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

### Key audit matter

### How our audit addressed the key audit matter

#### ***Impairment assessment of trade receivables***

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated statement of financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

At 31 December 2018, the Group's net trade receivables amounting to RMB5,054,838,000, which represented approximately 34.7% of total assets of the Group. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognised an additional impairment of RMB36,409,000 at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.

As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

As disclosed in note 21 to the consolidated financial statements, the Group recognised an additional amount of RMB60,479,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables at 31 December 2018 amounted to RMB350,548,000.

Our procedures in relation to impairment assessment of trade receivables included:

- Understanding the credit risk assessment and impairment assessment process and evaluating how the management estimates the loss allowance for trade receivables;
- Testing the accuracy of the ECL adjustment made by the Group at 1 January 2018 on initial adoption of HKFRS 9;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables at 1 January 2018 and 31 December 2018, including the reasonableness of management's grouping of the trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables in note 32 to the consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matter

### *Impairment assessment of goodwill*

We identified the impairment assessment of goodwill as a key audit matter due to the uncertainty on significant estimation that are required from the management in assessing the impairment of goodwill.

Determining the amount of impairment for goodwill requires an estimation of the recoverable amount, which is the value in use of the cash-generating units to which goodwill has been allocated. The value in use is determined based on the cash flow forecast for the group of cash generating units and requires the estimation of key assumptions, including suitable discount rates, growth rates, budget sales and gross margin in order to calculate the present value. Impairment of goodwill should be assessed by comparing the recoverable amount of cash-generating units to which the goodwill is allocated and the carrying value of the cash-generating units at the end of the reporting period.

As disclosed in note 17 to the consolidated financial statements, the carrying amount of goodwill of the Group is RMB54,775,000 at 31 December 2018. Management of the Group determines that there is an impairment of goodwill of approximately RMB54,831,000 during the year ended 31 December 2018.

## How our audit addressed the key audit matter

Our procedures in relation to evaluating the management's impairment assessment of goodwill included:

- Understanding the management's process relating to the preparation of the cash flow forecasts and impairment assessment;
- Evaluating the reasonableness of the cash flow forecasts by comparing the historical financial forecasts against actual performance;
- Analysing the reasonableness of the assumptions made by the management in determining the value in use of the cash-generating units to which the goodwill is allocated, including suitable discount rates, growth rates, budget sales and gross margin by the management; and
- Performing sensitivity analyses on the assumptions made by the management in determining the value in use of the cash-generating units to which the goodwill is allocated, including suitable discount rates and growth rates.

## OTHER INFORMATION

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*  
Hong Kong

28 March 2019



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Turnover	5	13,525,377	11,374,969
Cost of goods sold		(12,038,767)	(10,051,100)
Gross profit		1,486,610	1,323,869
Other income	6	84,999	57,099
Selling and distribution costs		(339,631)	(276,756)
Administrative expenses		(294,556)	(236,272)
Research and development costs		(57,543)	(35,387)
Other losses	7	(191,669)	(388,833)
Impairment losses on financial assets, net of reversal	8	(102,452)	(47,969)
Share of results of associates		(4,836)	1,324
Finance costs	9	(319,022)	(251,913)
Profit before taxation	10	261,900	145,162
Taxation	12	(79,479)	(41,250)
Profit for the year attributable to owners of the Company		182,421	103,912
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		(1,088)	—
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		(5,998)	1,352
Total comprehensive income for the year attributable to owners of the Company		175,335	105,264
Earnings per share	14		
— Basic		RMB4.52 cents	RMB2.57 cents
— Diluted		RMB4.52 cents	RMB2.57 cents

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	15	879,127	865,430
Land use rights	16	301,601	302,932
Deposits paid for acquisition of property, plant and equipment		11,870	18,539
Goodwill	17	54,775	109,606
Interests in associates	18	2,997	3,111
Loan to an associate	18	57,700	63,756
Equity instrument at fair value through other comprehensive income	19	4,262	–
Available-for-sale investment	19	–	7,090
Deferred tax assets	28	2,710	3,301
		<b>1,315,042</b>	1,373,765
Current assets			
Inventories	20	3,208,237	4,002,379
Trade and other receivables	21	5,379,213	4,850,751
Pledged bank deposits	22	2,068,956	1,727,213
Bank balances and cash	22	2,592,456	1,479,759
		<b>13,248,862</b>	12,060,102
Current liabilities			
Trade and other payables	23	4,846,630	4,656,385
Contract liabilities	24	851,224	–
Amounts due to directors	25	4,877	5,236
Bank borrowings — due within one year	26	3,274,315	3,332,080
Taxation payable		92,006	79,118
		<b>9,069,052</b>	8,072,819
Net current assets		<b>4,179,810</b>	3,987,283
Total assets less current liabilities		<b>5,494,852</b>	5,361,048
Non-current liabilities			
Government grants	27	–	741
Deferred tax liabilities	28	70,427	69,300
		<b>70,427</b>	70,041
Net assets		<b>5,424,425</b>	5,291,007
Capital and reserves			
Share capital	29	32,951	32,951
Reserves		5,391,474	5,257,504
Equity attributable to owners of the Company		<b>5,424,425</b>	5,290,455
Non-controlling interest		–	552
Total equity		<b>5,424,425</b>	5,291,007

The consolidated financial statements on pages 75 to 137 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

**Chu Hui**  
DIRECTOR

**Xia Yafang**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company												Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Shares held for share award scheme RMB'000 (Note 30)	Employee share-based compensation reserve RMB'000 (Note 30)	Investment revaluation reserve RMB'000	Non- distributable reserve RMB'000 (Note b)	Statutory reserve RMB'000 (Note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non- controlling interest RMB'000	
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	-	-	-	-	-	-	-	-	1,352	-	1,352	-	1,352
Profit for the year	-	-	-	-	-	-	-	-	-	103,912	103,912	-	103,912
Total comprehensive income for the year	-	-	-	-	-	-	-	-	1,352	103,912	105,264	-	105,264
Recognition of equity-settled share-based payments	-	-	-	-	188	-	-	-	-	-	188	-	188
Shares vested under share award scheme	-	-	-	684	(330)	-	-	-	-	(354)	-	-	-
Purchase of shares under share award scheme	-	-	-	(901)	-	-	-	-	-	-	(901)	-	(901)
Dividends recognised as distribution (Note 13)	-	-	-	-	-	-	-	-	-	(110,636)	(110,636)	-	(110,636)
Transfers	-	-	-	-	-	-	-	15,159	-	(15,159)	-	-	-
At 31 December 2017	32,951	1,983,889	148,696	(41,581)	2,786	-	77,351	423,707	(27,048)	2,689,704	5,290,455	552	5,291,007
Adjustments (see note 2)	-	-	-	-	-	(1,740)	-	-	-	(36,409)	(38,149)	-	(38,149)
At 1 January 2018 (restated)	32,951	1,983,889	148,696	(41,581)	2,786	(1,740)	77,351	423,707	(27,048)	2,653,295	5,252,306	552	5,252,858
Fair value loss on investment in equity instrument at fair value through other comprehensive income	-	-	-	-	-	(1,088)	-	-	-	-	(1,088)	-	(1,088)
Exchange differences arising from translation of a foreign operation	-	-	-	-	-	-	-	-	(5,998)	-	(5,998)	-	(5,998)
Profit for the year	-	-	-	-	-	-	-	-	-	182,421	182,421	-	182,421
Total comprehensive (expense) income for the year	-	-	-	-	-	(1,088)	-	-	(5,998)	182,421	175,335	-	175,335
Recognition of equity-settled share-based payments	-	-	-	-	1,905	-	-	-	-	-	1,905	-	1,905
Purchase of shares under share award scheme	-	-	-	(5,121)	-	-	-	-	-	-	(5,121)	-	(5,121)
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(552)	(552)
Transfers	-	-	-	-	-	-	-	25,872	-	(25,872)	-	-	-
At 31 December 2018	32,951	1,983,889	148,696	(46,702)	4,691	(2,828)	77,351	449,579	(33,046)	2,809,844	5,424,425	-	5,424,425

## Notes:

- (a) The special reserve represents the difference between the nominal value of the shares of the Company issued in exchange for the entire equity interest in Extra Fame Group Limited pursuant to a group reorganisation in 2012.
- (b) The non-distributable reserve represents capitalisation of the 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 PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	261,900	145,162
Adjustments for:		
Interest income	(67,718)	(40,669)
Finance costs	319,022	251,913
Depreciation of property, plant and equipment	98,278	91,670
Loss on disposal of property, plant and equipment	111	602
Write-down of inventories	113,308	382,245
Operating lease rentals in respect of land use rights	7,980	7,449
Impairment loss recognised in respect of goodwill	54,831	–
Loss on deregistration of a subsidiary	748	–
Release of government grants	(741)	(2,260)
Impairment losses on financial assets, net of reversal	102,452	47,969
Share of results of associates	4,836	(1,324)
Recognition of equity-settled share-based payments	1,905	188
Operating cash flows before movements in working capital	896,912	882,945
Decrease (increase) in inventories	680,491	(574,802)
Increase in trade and other receivables	(667,053)	(1,097,603)
Increase in trade and other payables	814,263	1,230,119
Increase in contract liabilities	232,823	–
Cash generated from operations	1,957,436	440,659
PRC income tax paid	(64,137)	(64,130)
South Africa income tax paid	(698)	(290)
Net cash from operating activities	1,892,601	376,239
Investing activities		
Release of pledged bank deposits	2,647,667	2,083,979
Interest received	61,460	33,275
Proceeds from disposal of property, plant and equipment	1,925	84
Bank deposits pledged	(2,989,410)	(2,385,738)
Purchase of property, plant and equipment	(95,505)	(105,079)
Deposits paid for acquisition of property, plant and equipment	(11,870)	(18,539)
Payment for acquisition of land use rights	(6,967)	(52,924)
Advance to an associate	(1,335)	(27,043)
Net cash outflow from deregistration of a subsidiary	(1,300)	–
Net cash used in investing activities	(395,335)	(471,985)

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Financing activities		
New bank borrowings raised	4,582,855	4,548,597
Advances from directors	1,204	5,146
Repayment of bank borrowings	(4,640,620)	(4,781,878)
Interest paid	(319,022)	(251,913)
Purchase of shares under share award scheme	(5,121)	(901)
Repayment to directors	(1,563)	(5,708)
Dividends paid	—	(110,636)
Net cash used in financing activities	(382,267)	(597,293)
Net increase (decrease) in cash and cash equivalents	1,114,999	(693,039)
Cash and cash equivalents at beginning of the year	1,479,759	2,172,465
Effect of foreign exchange rate changes	(2,302)	333
Cash and cash equivalents at end of the year, represented by bank balances and cash	2,592,456	1,479,759

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL

Jiangnan Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The immediate holding company of the Company is Power Heritage Group Limited ("Power Heritage"), a company which was incorporated in the British Virgin Islands ("BVI") and the ultimate holding company of the Company is 無錫光普投資有限公司, a company which was established in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

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

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

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

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

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

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

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

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

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that were not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the manufacture of and trading in wires and cables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** *(continued)***HKFRS 15 "Revenue from Contracts with Customers"** *(continued)*

Information about the Group's performance obligations and the accounting policies resulting from the application of HKFRS 15 is disclosed in notes 5 and 3 respectively.

**Summary of effects arising from initial application of HKFRS 15**

There was no material impact on transition to HKFRS 15 on accumulated profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 RMB'000
<b>Current liabilities</b>			
Trade and other payables	4,656,385	(618,401)	4,037,984
Contract liabilities ( <i>note</i> )	—	618,401	618,401

*Note:* At 1 January 2018, receipts in advances from customers of approximately RMB618,401,000 in respect of consideration received from customers in connection with sales contracts previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included:

**Impact on the consolidated statement of financial position**

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
<b>Current liabilities</b>			
Trade and other payables	4,846,630	851,224	5,697,854
Contract liabilities	851,224	(851,224)	—



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

#### Impact on the consolidated statement of cash flows

	As of reported RMB'000	Adjustments RMB'000	Amounts without application HKFRS 15 RMB'000
<b>Operating activities</b>			
Increase in trade and other payables	814,263	232,823	1,047,086
Increase in contract liabilities	232,823	(232,823)	–

The directors of the Company considered the application of HKFRS15 has no material impact on the timing and amounts of revenue recognised in the respective reporting periods.

### HKFRS 9 "Financial Instruments" and the related amendments

In the current year, 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) the expected credit losses ("ECL") for financial assets; and (3) general hedge accounting.

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

Accordingly, certain comparative information may not be comparable as those comparative information were prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from the application of HKFRS 9 are disclosed in note 3.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

## HKFRS 9 "Financial Instruments" and the related amendments (continued)

## Summary of effects arising from initial application of HKFRS 9

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

	Notes	Available- for-sale investment ("AFS") RMB'000	Equity instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Investment revaluation reserve RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Accumulated profits RMB'000
Closing balance at 31 December 2017						
— HKAS 39		7,090	—	—	7,897,077	2,689,704
Effect arising from initial application of HKFRS 9:						
Reclassification						
From AFS investments	(a)	(7,090)	7,090	—	—	—
Remeasurement						
Impairment under ECL model	(b)	—	—	—	(36,409)	(36,409)
From cost less impairment to fair value	(a)	—	(1,740)	(1,740)	—	—
Opening balance at 1 January 2018		—	5,350	(1,740)	7,860,668	2,653,295

Notes:

## (a) AFS investment

## From AFS investment to equity instrument at FVTOCI

The Group elects to present in other comprehensive income ("OCI") for the fair value changes of all its equity investment previously classified as AFS. This investment is not held for trading and is not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB7,090,000 was reclassified from AFS investment to equity instrument at FVTOCI, which was an unquoted equity investment previously measured at cost less impairment under HKAS 39. The fair value loss of RMB1,740,000 relating to this unquoted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and investment revaluation reserve as at 1 January 2018.

## (b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been grouped based on shared credit risk characteristics of the trade receivables.

Except for those which had been determined as credit-impaired under HKAS 39, the ECL for other financial assets at amortised cost, including loan to an associate, other receivables, pledged bank deposits and bank balances and cash, are assessed on 12-month ("12m") ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of approximately RMB36,409,000 has been recognised against accumulated profits. The additional credit loss allowance is charged against the respective assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>4</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>5</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle <sup>1</sup>

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual period beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of RMB729,000 as disclosed in note 33. The directors of the Company do not expect the adoption of HKFRS 16 as compared with HKAS 17 would result in significant impact on the Group's result but expected that the above operating lease arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

In addition, the Group currently considers refundable rental deposits paid of RMB279,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### **Basis of consolidation** *(continued)*

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

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

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

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

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

### **Business combinations**

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### **Basis of consolidation** *(continued)*

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

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

#### **Goodwill**

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

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

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

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of CGUs) retained.

### **Investments in associates**

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### **Investments in associates** *(continued)*

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

### **Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)**

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Revenue recognition (prior to 1 January 2018)

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

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

Construction in progress include property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Leases

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

#### **The Group as lessee**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Land use rights and leasehold building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Research and development costs

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

### Inventories

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

### Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### **Impairment on tangible assets** *(continued)*

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

### **Financial assets**

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial assets (continued)

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)*

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

#### Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan to an associate, pledged bank deposits and bank balances and cash). 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, 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. Assessment 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.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises 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.

#### Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)*

Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

#### Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets are classified into the following specified categories: loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Loans and receivables

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*  
*(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### **Financial instruments** *(continued)*

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

##### *Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)*

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

#### **Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

#### **Financial liabilities and equity**

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

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

##### *Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

##### *Financial liabilities at amortised cost*

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

##### *Derecognition of financial liabilities*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Equity-settled share-based payment transactions

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

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

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

### Taxation

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Taxation *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefits costs

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

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

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

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

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Impairment assessment of trade receivables

Prior to the adoption of HKFRS 9 on 1 January 2018, the Group makes allowance for bad and doubtful debts based on an assessment of the recoverability of the trade receivables. Allowances are made on trade receivables whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration of the credit history of the trade receivables, including default or delay in payments, settlement history and aging analysis of the trade receivables. Following the identification of doubtful debts, the credit team discusses with the relevant customers and reports on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further allowance for bad and doubtful debts is required.

Upon application of HKFRS 9 on 1 January 2018, the Group uses provision matrix to calculate ECL for the trade receivables. The provision matrix is based on groupings of various debtors that have similar loss patterns after considering ageing, repayment history and/or past due status of respective trade receivables. The estimated loss rate are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 32 and 21 respectively.

At 31 December 2018, the carrying amount of trade receivables is approximately RMB5,054,838,000 (2017: RMB4,461,347,000) (net of allowance for impairment losses of trade receivables of approximately RMB350,548,000 (2017: RMB253,660,000)).

### Impairment assessment of goodwill

Impairment of goodwill is assessed by comparing the recoverable amount (i.e. the value in use) of the cash-generating unit to which the goodwill is allocated and its carrying amount at the end of each reporting period or more frequently when there is an indication that the unit may be impaired. The value in use calculation requires the management to estimate the present value of the future cash flows expected to arise from the cash-generating unit, with key assumptions including suitable discount rates, growth rates, budget sales and gross margin.

Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise.

At 31 December 2018, the carrying amount of goodwill is approximately RMB54,775,000 (2017: RMB109,606,000). Details of the recoverable amount calculation are disclosed in note 17.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

### Allowance of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. The management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow moving items. Although the Group carried periodic review on the net realisable value of inventories, the actual realisable value of inventories would not be known until the sale was concluded. At 31 December 2018, the carrying amount of inventories is approximately RMB3,208,237,000 (2017: RMB4,002,379,000).

## 5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture of and trading in wires and cables. All of the Group's revenue is recognised when the control of the goods is transferred, being the time at which the goods are delivered to the locations specified by the customers. A receivable is recognised by the Group when the goods are delivered to the locations specified by the customers as this represents the point in time at which the right to consideration becomes unconditional, (i.e. except for the passage of time is required before payment is due). The customers have neither the rights of return nor the rights to defer or avoid payment for the goods once the goods are accepted by the customers upon receipt. The contracts signed by the Group with the customers are short-term and price determined contracts.

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

The information of segment results are as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
— power cables	9,475,033	7,693,970
— wires and cables for electrical equipment	2,538,890	2,256,538
— bare wires	432,152	640,005
— special cables	1,079,302	784,456
	13,525,377	11,374,969
Cost of goods sold		
— power cables	8,454,427	6,829,204
— wires and cables for electrical equipment	2,351,837	2,035,558
— bare wires	392,657	577,609
— special cables	839,846	608,729
	12,038,767	10,051,100
Segment results		
— power cables	1,020,606	864,766
— wires and cables for electrical equipment	187,053	220,980
— bare wires	39,495	62,396
— special cables	239,456	175,727
	1,486,610	1,323,869

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

	2018 RMB'000	2017 RMB'000
Reportable segment results	1,486,610	1,323,869
Unallocated income and expenses		
— Other income	84,999	57,099
— Selling and distribution costs	(339,631)	(276,756)
— Administrative expenses	(294,556)	(236,272)
— Research and development costs	(57,543)	(35,387)
— Other losses	(191,669)	(388,833)
— Impairment losses on financial assets, net of reversal	(102,452)	(47,969)
— Share of results of associates	(4,836)	1,324
— Finance costs	(319,022)	(251,913)
Profit before taxation	261,900	145,162

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. TURNOVER AND SEGMENT INFORMATION** *(continued)***Geographical information**

More than 90% of the Group's sales were made to customers in the PRC (country of domicile) for both years. More than 90% of the Group's non-current assets were located in the PRC at 31 December 2018 and 2017.

**Information about major customers**

The Group had no customers that contributed over 10% of the revenue of the Group for both years.

**6. OTHER INCOME**

	2018 RMB'000	2017 RMB'000
Interest income	67,718	40,669
Government subsidies <i>(note)</i>	12,507	12,445
Others	4,774	3,985
	<b>84,999</b>	57,099

*Note:* Included in the amount are RMB741,000 (2017: RMB927,000) and nil (2017: RMB1,333,000) representing deferred income on government subsidies recognised during the year in relation to capital expenditure on property, plant and equipment over the useful lives of the related assets and technological research and development projects over the projects' lives, respectively. The remaining amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage business development in the Yixing region and research and energy reduction activities conducted by the Group, and all of them had no specific conditions imposed.

**7. OTHER LOSSES**

	2018 RMB'000	2017 RMB'000
Write-down of inventories <i>(note 1)</i>	113,308	382,245
Impairment loss recognised in respect of goodwill <i>(note 17)</i>	54,831	–
Exchange loss	22,671	5,986
Loss on disposal of property, plant and equipment	111	602
Loss on deregistration of a subsidiary <i>(note 2)</i>	748	–
	<b>191,669</b>	388,833

*Notes:*

- During the year ended 31 December 2018, the write-down of inventories composed of (i) the carrying amount of inventories misappropriated amounted to approximately RMB68,045,000; and (ii) the loss from the disassemble of inventories amounted to approximately RMB45,263,000. During the year ended 31 December 2018, the Group had inventories misappropriated by a former employee of the Group. The matter was reported to the Yixing Guanlin Police Station and the suspect has been detained for criminal investigation. In August 2018, the Group had inventories damaged by a flood caused by a typhoon. The affected inventories had been disassembled. The difference between the carrying amounts of the affected inventories and their respective estimated net realisable values was recognised as write-down of inventories in the consolidated financial statements.

During the year ended 31 December 2017, due to the changes in market requirements, the Group had undertaken a product quality assessment exercise to identify the affected inventories which were to be disassembled. The difference between the carrying amounts of the affected inventories being disassembled and their respective estimated net realisable values was recognised as write-down of inventories in the consolidated financial statements.

- The subsidiary had net assets of RMB828,000 at the date of deregistration, representing bank balances of RMB1,380,000 and non-controlling interests of RMB552,000, respectively. RMB80,000 was finally distributed to the Group and accordingly, loss on deregistration of a subsidiary of RMB748,000 was recognised in consolidated financial statements during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 8. IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses, net of reversal on:		
Trade receivables	60,479	47,969
Other receivables	41,973	–
	<b>102,452</b>	47,969

Details of impairment assessment for the year ended 31 December 2018 are set out in note 32.

## 9. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interests on bank borrowings	<b>319,022</b>	251,913

## 10. PROFIT BEFORE TAXATION

	2018 RMB'000	2017 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (Note 11)	<b>2,653</b>	2,185
Other staff costs:		
Salaries and other benefits	<b>240,260</b>	206,678
Share award expenses	<b>1,417</b>	164
Contributions to retirement benefit schemes	<b>47,557</b>	40,414
Total staff costs	<b>291,887</b>	249,441
Less: Staff costs included in research and development costs	<b>(24,982)</b>	(25,064)
	<b>266,905</b>	224,377
Depreciation of property, plant and equipment	<b>98,278</b>	91,670
Less: Depreciation included in research and development costs	<b>(3,558)</b>	(5,736)
	<b>94,720</b>	85,934
Auditor's remuneration	<b>2,997</b>	2,862
Cost of inventories recognised as expenses	<b>12,003,841</b>	10,019,446
Minimum lease payments — under operating lease in respect of properties	<b>9,053</b>	4,257
Operating lease rentals in respect of land use rights	<b>7,980</b>	7,449

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS**

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

	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit schemes contribution RMB'000	Share award expenses (note b) RMB'000	Total RMB'000
<b>For the year ended 31 December 2018</b>					
Executive directors:					
Chu Hui (note a)	–	605	29	122	756
Jiang Yongwei	–	365	19	122	506
Xia Yafang	–	425	19	122	566
Hao Minghui	–	360	–	122	482
Independent non-executive directors:					
Philip Poon Yick Pang	171	–	–	–	171
He Zhisong	86	–	–	–	86
Yang Rongkai	86	–	–	–	86
	<b>343</b>	<b>1,755</b>	<b>67</b>	<b>488</b>	<b>2,653</b>

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

*Notes:*

- (a) Mr. Chu Hui is the chief executive officer ("CEO") of the Company and the chairman of the board of directors ("Board"). His emoluments disclosed above include those in relation to the services rendered by him as the chairman of the Board and CEO of the Company.
- (b) The share award expenses represent the accrued value of the shares of the Company awarded to the directors and chief executive of the Company under the share award scheme of the Company (further details of which are set out in note 30), which are to be vested to the relevant directors and chief executive of the Company on 1 April 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

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

The five highest paid individuals for the year ended 31 December 2018 included three (2017: two) directors, details of whose emoluments are set out above. The emoluments of the remaining two individuals (2017: three individuals), for the year are as follows:

	2018 RMB'000	2017 RMB'000
Employees		
— basic salaries and allowances	1,746	2,076
— retirement benefit schemes contribution	31	47
— share award expenses	122	83
	1,899	2,206

The emoluments of the two individuals (2017: three individuals) with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	1

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

## 12. TAXATION

	2018 RMB'000	2017 RMB'000
The charge comprises:		
Current tax		
PRC income tax	77,761	39,277
South Africa income tax	—	1,012
	77,761	40,289
Net deferred taxation charge (Note 28)	1,718	961
Taxation charge for the year	79,479	41,250

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**12. TAXATION** *(continued)*

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law ("EIT Law") of the PRC on Enterprise Income Tax ("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 onward. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) ("Zhongmei Cable") were endorsed as High and New Technology Enterprises on 4 March 2009 (renewed on 30 November 2018) 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 2021 and 2020 respectively.

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

Taxation arising in South Africa is calculated at the rate prevailing in South Africa. The Group did not have assessable profit arising from its subsidiary in South Africa for the year ended 31 December 2018. South Africa income tax was calculated at 28% of the assessable profit of that subsidiary for the year ended 31 December 2017.

No provision for Hong Kong Profits Tax is provided in the consolidated financial statements as the Group did not have assessable profit in Hong Kong for both years ended 31 December 2018 and 2017.

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	261,900	145,162
Tax at the applicable tax rate <i>(note)</i>	65,475	36,291
Tax effect of expenses not deductible for tax purpose	33,137	8,348
Tax effect of income not taxable for tax purpose	(564)	(822)
Tax effect of tax concession granted to PRC subsidiaries	(26,733)	(13,999)
Tax effect of deductible temporary differences not recognised	1,564	7,195
Tax effect of share of results of associates	1,209	(331)
Withholding tax on undistributed earnings	3,725	2,921
Others	1,666	1,647
Taxation for the year	79,479	41,250

*Note:* The applicable income tax rate represents the PRC income tax rate at 25% (2017: 25%) for the year ended 31 December 2018 as the Group's operations are substantially based in the PRC.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year:		
2017 Final dividend — nil (2017: 2016 Final dividend of HK3.1 cents per share)	—	110,636

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: nil).

## 14. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	182,421	103,912

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of calculation of basic earnings per share	4,035,288	4,038,757
Effect of dilutive potential ordinary shares:		
Shares granted under the share award scheme	4,909	4,324
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	4,040,197	4,043,081

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2017	546,377	515,458	30,771	39,282	97,801	1,229,689
Currency realignment	–	–	8	3	–	11
Additions	293	31,631	1,980	4,060	76,113	114,077
Disposals	–	(1,658)	(3,542)	–	–	(5,200)
Transfers	36,375	84,529	–	137	(121,041)	–
At 31 December 2017	583,045	629,960	29,217	43,482	52,873	1,338,577
Currency realignment	–	–	(115)	(34)	–	(149)
Additions	14,088	26,653	1,328	11,064	60,911	114,044
Disposals	–	(2,880)	(938)	(259)	–	(4,077)
Transfers	8,440	41,130	–	1,772	(51,342)	–
At 31 December 2018	605,573	694,863	29,492	56,025	62,442	1,448,395
DEPRECIATION						
At 1 January 2017	119,437	226,680	16,972	22,892	–	385,981
Currency realignment	–	–	7	3	–	10
Provided for the year	29,605	54,397	4,237	3,431	–	91,670
Eliminated on disposals	–	(1,258)	(3,256)	–	–	(4,514)
At 31 December 2017	149,042	279,819	17,960	26,326	–	473,147
Currency realignment	–	–	(85)	(31)	–	(116)
Provided for the year	31,091	60,649	3,229	3,309	–	98,278
Eliminated on disposals	–	(938)	(857)	(246)	–	(2,041)
At 31 December 2018	180,133	339,530	20,247	29,358	–	569,268
CARRYING VALUES						
At 31 December 2018	425,440	355,333	9,245	26,667	62,442	879,127
At 31 December 2017	434,003	350,141	11,257	17,156	52,873	865,430

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

At 31 December 2018, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB181,261,000 and approximately RMB27,050,000 (2017: RMB194,934,000 and RMB29,656,000) respectively to certain banks to secure credit facilities granted to the Group.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 16. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
Carrying amount		
At beginning of the year	310,912	265,437
Additions	6,967	52,924
Charged to profit or loss for the year	(7,980)	(7,449)
At end of the year	309,899	310,912
Analysed for reporting purpose as:		
Current portion (Note 21)	8,298	7,980
Non-current portion	301,601	302,932
	309,899	310,912

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

At 31 December 2018, the Group has pledged the land use rights with a carrying amount of approximately RMB295,687,000 (2017: RMB303,703,000) to certain banks to secure the credit facilities granted to the Group.

## 17. GOODWILL

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	109,606
IMPAIRMENT	
At 1 January 2017 and 31 December 2017	–
Provided for the year	54,831
At 31 December 2018	54,831
CARRYING VALUES	
At 31 December 2018	54,775
At 31 December 2017	109,606

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

	2018 RMB'000	2017 RMB'000
New Sun Investments Limited ("New Sun")	–	54,831
Kai Da Investments Limited ("Kai Da")	54,775	54,775
	54,775	109,606

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 17. GOODWILL (continued)

During the year ended 31 December 2018, the management of the Group determined that there was an impairment of RMB54,831,000 relating to the CGU of New Sun (2017: nil). As it has taken longer than expected to grow the business of New Sun, the cash flow projections and valuation assumptions were adjusted to reflect a softer outlook of the CGU. Hence the recoverable amounts were determined to be lower than the carrying amounts of the assets allocated to the CGU.

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

The recoverable amounts of these CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections covering a 5-year period, based on financial budgets approved by management, a growth rate of 3% (2017: 6%) and a discount rate per annum of 9.87% (2017: 11.78%) for New Sun and a growth rate of 1% (2017: 6%) and a discount rate of 9.71% (2017: 11.60%) per annum for Kai Da. Cash flows beyond the 5-year period are extrapolated with a 3% and 1% growth rate in New Sun and Kai Da respectively. Each of these growth rates is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate of the relevant industry.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budget sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for the market development. The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU of Kai Da to exceed the aggregate recoverable amount of this CGU.

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

	2018 RMB'000	2017 RMB'000
Cost of investments in associates, unlisted	15,291	15,318
Impairment loss recognised	(232)	(259)
Share of post-acquisition losses and other comprehensive expense, net of dividends received	(12,062)	(11,948)
	2,997	3,111
	2018 RMB'000	2017 RMB'000
Loan to an associate	67,169	68,503
Less: Share of post-acquisition losses that are in excess of the cost of the investment	(9,469)	(4,747)
	57,700	63,756

The loan to an associate is unsecured and carries interest at 7% (2017: 8%) compounded monthly, which in the opinion of the directors of the Company is expected to be repaid after one year and hence it is classified as non-current asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

Name of entity	Form of entity	Country of incorporation/ establishment	Principal place of operation	Proportion of ownership interest held by the Group 2018 & 2017	Proportion of voting rights held by the Group 2018 & 2017	Principal activity
江蘇和順典當有限公司 ("江蘇和順")	Incorporated	PRC	PRC	30%	30%	Business of pawn broking
Wuxi Tech (Proprietary) Ltd. ("Wuxi Tech")	Incorporated	South Africa	South Africa	49%	49%	Manufacture of electrical cables

### Summarised financial information of associates

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

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

#### 江蘇和順

	2018 RMB'000	2017 RMB'000
Current assets	12,911	13,494
Non-current assets	35	35
Current liabilities	(2,956)	(3,159)
Net assets	9,990	10,370
Revenue	3	18
Loss and total comprehensive expense for the year	(380)	(410)

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

	2018 RMB'000	2017 RMB'000
Net assets of 江蘇和順	9,990	10,370
Proportion of the Group's ownership interest in 江蘇和順	30%	30%
Carrying amount of the Group's interest in 江蘇和順	2,997	3,111

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**18. INTERESTS IN ASSOCIATES/LOAN TO AN ASSOCIATE** *(continued)***Wuxi Tech**

	2018 RMB'000	2017 RMB'000
Current assets	69,726	95,088
Non-current assets	6,995	5,718
Current liabilities	(27,500)	(40,966)
Non-current liabilities	(67,219)	(68,525)
Net liabilities	(17,998)	(8,685)
Revenue	72,731	173,681
(Loss) profit for the year	(9,638)	2,953
Other comprehensive income for the year	325	351
Total comprehensive (expense) income for the year	(9,313)	3,304

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

	2018 RMB'000	2017 RMB'000
Net liabilities of Wuxi Tech	(17,998)	(8,685)
Proportion of the Group's ownership interest in Wuxi Tech	49%	49%
	(8,819)	(4,256)
Effect of net liabilities not recognised by the Group	8,819	4,256
Carrying amount of the Group's interest in Wuxi Tech	—	—

**19. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT**

The amount represents the Group's equity investment in an unlisted private enterprise in the PRC. At 31 December 2017, the investment was measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimate was so significant that the directors of the Company were of the opinion that the fair value cannot be measured reliably.

At the date of initial application of HKFRS 9, RMB7,090,000 was reclassified from available-for-sale investment to equity instrument at FVTOCI. The fair value loss of RMB1,740,000 relating to this unlisted equity investment previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and investment revaluation reserve at 1 January 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 20. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	36,899	46,973
Work in progress	1,501,616	2,139,684
Finished goods	1,669,722	1,815,722
	<b>3,208,237</b>	4,002,379

## 21. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables, net	5,054,838	4,461,347
Current portion of land use rights (Note 16)	8,298	7,980
Deposits paid to suppliers	82,763	178,474
Prepayments	38,135	28,548
Staff advances	7,580	5,698
Tender deposits	111,922	102,233
Value-added tax receivables	4,028	5,581
Other receivables	71,649	60,890
	<b>5,379,213</b>	4,850,751

Included in the Group's trade receivables at 31 December 2018 are bills receivables of RMB639,045,000 (2017: RMB333,449,000).

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

The following is an aging analysis of trade receivables, net of allowance for impairment losses of trade receivables based on the invoice date at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Age		
0 to 90 days	2,143,445	2,300,057
91 to 180 days	930,476	738,555
181 to 365 days	910,945	640,013
Over 365 days	1,069,972	782,722
	<b>5,054,838</b>	4,461,347



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**21. TRADE AND OTHER RECEIVABLES** *(continued)*

At 31 December 2018, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB2,544,875,000 which are past due and which impairment loss has not been provided for since they are of good credit quality and are expected to be recoverable. The Group does not hold any collateral over these balances. Included in the past due balance was RMB2,544,875,000 which had been past due 90 days or more that was not considered to be in default based on the good repayment records of those debtors and their ongoing business with the Group.

Before the application of HKFRS 9 on 1 January 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB2,154,179,000 at 31 December 2017, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good quality because they are within the credit period granted and the Group's management considers the default rate is low for such receivables based on historical information and experience. At the end of each reporting period, the management will assess the recoverability of its trade debtors and consider whether any amounts are impaired and provided for impairment loss. Except for those trade debts that are considered to be individually impaired, the remaining trade receivables that are past due but not impaired, in the opinion of the management, are recoverable as there has been continuing settlement from these customers. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired at 31 December 2017:

	2017 RMB'000
Age	
0 to 90 days	140,742
91 to 180 days	590,702
181 to 365 days	640,013
Over 365 days	782,722
	<u>2,154,179</u>

Before the application of HKFRS 9 on 1 January 2018, in determining the recoverability of the trade receivables, the Group took into consideration the credit history of the trade receivables including default or delay in payments, settlement history and aging analysis of trade receivables. The directors of the Company considered that the concentration of credit risk was limited due to the Group's customer base being large and unrelated.

Details of the impairment assessment for the year ended 31 December 2018 are set out in note 32.

At 31 December 2017, trade receivables of RMB46,970,000 have been discounted to the banks with recourse. Accordingly, the Group continues to include these discounted receivables and has recognised the cash received as bank borrowings with the same amount until maturity (see Note 26).

No interest is charged on the trade receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Movements in the allowance for impairment losses of trade receivables:

	2018 RMB'000	2017 RMB'000
At beginning of the year	253,660	205,691
Adjustments ( <i>see note 2</i> )	36,409	–
At beginning of the year ( <i>restated</i> )	290,069	205,691
Allowance for the year	60,479	47,969
At end of the year	350,548	253,660

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

Prepayments mainly comprise prepayments for electricity, advertising, utility deposits and other operating expenses.

Tender deposits represent deposits paid for bidding of projects for supply of power cable by the Group and are refundable upon completion of the bidding process.

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

	2018 RMB'000	2017 RMB'000
United States dollars ("USD")	96,055	90,612
Hong Kong dollars	1,907	1,622
Singapore dollars	93,303	107,483

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

The pledged bank deposits carry interest at prevailing market rates ranging from 1.1% to 4.2% (2017: 1.1% to 3.47%) per annum at 31 December 2018.

At 31 December 2018 and 31 December 2017, the entire pledged bank deposits represent deposits pledged to banks to secure the bank facilities drawn and the issuance of bills payables by the Group.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at prevailing market rates ranging from 0.35% to 3.35% (2017: 0.35% to 2.1%) per annum at 31 December 2018.

Details of the impairment assessment for the year ended 31 December 2018 are set out in note 32.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH** *(continued)*

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

	2018 RMB'000	2017 RMB'000
USD	52,461	108,729
Hong Kong dollars	5,022	13,455
Singapore dollars	449	6,204
Euro	1	5

**23. TRADE AND OTHER PAYABLES**

	2018 RMB'000	2017 RMB'000
Trade payables	4,408,498	3,644,190
Payroll and welfare accruals	109,072	97,200
Receipts in advances from customers <i>(note a)</i>	–	618,401
Consideration payables <i>(note b)</i>	130,698	130,698
Loans advanced from staff <i>(note c)</i>	75,693	78,313
Other tax payables	46,138	22,040
Other deposits	2,461	440
Other payables and accruals	74,070	65,103
	<b>4,846,630</b>	<b>4,656,385</b>

Included in the Group's trade payables at 31 December 2018 are bills payables of RMB2,704,623,000 (2017: RMB2,265,320,000).

Notes:

- (a) As at and commencing from 1 January 2018, receipts in advances from customers of approximately RMB618,401,000 in respect of consideration received from customers in connection with sales contracts previously included in trade and other payables were reclassified to contract liabilities resulting from the application of HKFRS 15.
- (b) The amounts represent consideration payables by the Group in connection with the acquisition of subsidiaries in prior years.
- (c) The amounts represent loans advanced from the staff of the Group, which were unsecured, non-interest bearing and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

	2018 RMB'000	2017 RMB'000
<b>Age</b>		
0 to 90 days	1,714,011	1,272,184
91 to 180 days	987,920	1,307,058
181 to 365 days	1,473,575	976,131
Over 365 days	232,992	88,817
	<b>4,408,498</b>	3,644,190

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

	2018 RMB'000	2017 RMB'000
USD	3,297	48,591
Hong Kong dollars	3,328	2,830

## 24. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018* RMB'000
Contract liabilities	851,224	618,401

\* The amount in this column is after the adjustments resulted from the application of HKFRS 15.

The contract liabilities at 1 January 2018 were fully recognised as revenue in the current year.

## 25. AMOUNTS DUE TO DIRECTORS

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 26. BANK BORROWINGS — DUE WITHIN ONE YEAR

	2018 RMB'000	2017 RMB'000
Secured	717,082	893,388
Secured and guaranteed by independent third parties	330,000	250,000
Unsecured	1,167,233	1,087,470
Unsecured and guaranteed by independent third parties	1,060,000	1,101,222
	3,274,315	3,332,080
The bank borrowings comprise:		
Variable rate borrowings	481,172	727,720
Fixed rate borrowings	2,793,143	2,557,390
Discounted bills with recourse	—	46,970
	3,274,315	3,332,080

At 31 December 2018, the fixed rate bank borrowings carry interest ranging from 1.5% to 6.5% (2017: 0.4% to 5.66%) per annum.

At 31 December 2018, the variable rate bank borrowings carry interest ranging from yearly bank's Euro cost of fund to 110% of the People's Bank of China ("PBOC") rate (2017: ranging from yearly bank's Euro cost of fund + 1.05% to 130% of the PBOC rate) per annum.

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

	2018 RMB'000	2017 RMB'000
USD	96,085	206,395
Hong Kong dollars	80,150	77,508
Euro	157,680	304,577

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

	2018 RMB'000	2017 RMB'000
For bank borrowings:		
— property, plant and equipment	208,311	224,590
— land use rights	295,687	303,703
For bank borrowings and bills payables:		
— pledged bank deposits	2,068,956	1,727,213
	2,572,954	2,255,506

## 27. GOVERNMENT GRANTS

	2018 RMB'000	2017 RMB'000
At beginning of the year	741	3,001
Released during the year	(741)	(2,260)
At end of the year	—	741

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

## 28. DEFERRED TAXATION

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

	Accelerated tax depreciation RMB'000	Tax on undistributed earnings RMB'000	Revaluation of assets RMB'000	Total RMB'000
At 1 January 2017	(3,890)	26,425	42,503	65,038
Charged (credited) to profit or loss for the year (Note 12)	589	2,921	(2,549)	961
At 31 December 2017	(3,301)	29,346	39,954	65,999
Charged (credited) to profit or loss for the year (Note 12)	591	3,725	(2,598)	1,718
At 31 December 2018	(2,710)	33,071	37,356	67,717

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**28. DEFERRED TAXATION** *(continued)*

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets	2,710	3,301
Deferred tax liabilities	(70,427)	(69,300)
	(67,717)	(65,999)

Deferred tax liability on the undistributed profits of the PRC subsidiaries earned during the year ended 31 December 2018 have been accrued at the tax rate of 10% (2017: 10%) on the expected dividend stream of 25% out of the undistributed profits of the PRC subsidiaries for each year which is determined by the directors of the Company. At 31 December 2018, an amount of approximately RMB330,710,000 (2017: RMB293,460,000) of the profits of the PRC subsidiaries has been provided in respect of such withholding tax. No deferred tax liability has been recognised in respect of the remaining balance of undistributed profits amounting to approximately RMB3,060,236,000 (2017: RMB2,924,826,000).

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB350,548,000 (2017: RMB253,660,000) in respect of its allowance for bad and doubtful debts. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of the directors of the Company, that allowance for bad and doubtful debts is not highly probable to be utilised as that amount is subject to approval by the relevant tax authority in the PRC and not intended to be claimed by the Group in the foreseeable future.

**29. 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
<b>Ordinary shares at HK\$0.01 each</b>			
Authorised:			
At 1 January 2017, 31 December 2017 and 31 December 2018	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2017, 31 December 2017 and 31 December 2018	4,078,866,000	40,788,660	32,951



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 30. SHARE AWARD SCHEME

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

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

During the year ended 31 December 2018, 15,264,000 (2017: 1,500,000) ordinary shares of the Company were acquired by the trustee at a total consideration of approximately HK\$5,800,000 (approximately RMB5,121,000) (2017: HK\$1,033,000 (approximately RMB901,000)).

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

The fair value of the Awarded Shares granted was determined with reference to market value of the shares on the grant date taking into account the price volatility of the Company, risk-free rate and the vesting period as well as the exclusion of the expected dividends, as the employees are not entitled to receive dividends paid during the vesting period. The fair value of the Awarded Shares on the grant date was HK\$30,182,000 (approximately RMB25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to HK\$2,225,000 (approximately RMB1,905,000) (2017: HK\$217,000 (RMB188,000)) for the year ended 31 December 2018.

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

	Number of shares '000
Outstanding as at 1 January 2017	26,475
Awarded shares vested ( <i>note a</i> )	(500)
Award shares forfeited ( <i>note a</i> )	(8,325)
Outstanding as at 31 December 2017	17,650
Award shares forfeited ( <i>note b</i> )	(9,825)
Outstanding as at 31 December 2018	7,825

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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 due to non-fulfilment of certain performance conditions. The balance of 1,000,000 Awarded Shares were forfeited according to the Share Award Scheme due to certain Qualified Employees no longer remained employed with the Group.

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

	Number of shares purchased '000	Cost of purchase HK\$'000	Cost of purchase RMB'000
At 1 January 2017	39,671	49,375	41,364
Shares purchased from the market during the year	1,500	1,033	901
Shares transferred out upon being vested	(500)	(831)	(684)
At 31 December 2017	40,671	49,577	41,581
Shares purchased from the market during the year	15,264	5,800	5,121
At 31 December 2018	55,935	55,377	46,702

## 31. CAPITAL RISK MANAGEMENT

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 32. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	9,965,101	–
Loans and receivables (including cash and cash equivalents)	–	7,897,077
Equity instrument at FVTOCI	4,262	–
Available-for-sale investment	–	7,090
Financial liabilities		
Amortised cost	7,908,292	7,201,719

### Financial risk management objectives and policies

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

#### Market risk

##### Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the interest bearing pledged bank deposits, bank balances and bank borrowings at variable interest rate. Bank borrowings at fixed interest rates exposed the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates offered by PBOC from its RMB denominated pledged bank deposits, bank balances and bank borrowings, the fluctuation of the interest rates offered by the ICE Benchmark Administration from its United States dollars, Hong Kong dollars and Euro denominated bank balance and bank borrowings.

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

If the interest rates on pledged bank deposits, bank balances and variable rate bank borrowings had been 25 basis points (2017: 25 basis points) lower and all other variables were held constant, the potential effect on profit for the year is as follows:

	2018 RMB'000	2017 RMB'000
Increase (decrease) in profit for the year	10,727	(6,096)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. FINANCIAL INSTRUMENTS** *(continued)***Financial risk management objectives and policies** *(continued)***Market risk** *(continued)**Interest rate risk (continued)*

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

*Currency risk*

The Group has foreign currency sales and purchases during the year which exposed the Group to foreign currency risk. During the year ended 31 December 2018, approximately 2.3% (2017: 3.0%) of the Group's sales are denominated in currency other than the functional currency of the group entities which it relates.

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

	2018		2017	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
USD	148,516	99,382	199,341	254,986
Hong Kong dollars	6,929	83,478	15,077	80,338
Singapore dollars	93,752	—	113,687	—
Euro	1	157,680	5	304,577

The Group is mainly exposed to currency risk of United States dollars, Hong Kong dollars, Singapore dollars and Euro. The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against the relevant foreign currencies. The Group currently does not have any foreign currency hedging policy and will consider hedging its foreign currency exposure should the need arise. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. If RMB strengthens 5% (2017: 5%) against the relevant foreign currencies, the increase (decrease) in post tax profit for the year is as follows:

	2018 RMB'000	2017 RMB'000
USD	(2,088)	2,365
Hong Kong dollars	3,253	2,774
Singapore dollars	(3,984)	(4,832)
Euro	6,701	12,944

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 32. FINANCIAL INSTRUMENTS *(continued)*

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

#### **Credit risk and impairment assessment**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

#### *Overview of the Group's exposure to credit risk before application of HKFRS 9 at 1 January 2018*

In order to minimise the credit risk, the management has standard operating procedures and guidelines to determine credit limits before contracts are signed and other monitoring procedures such as chasing individual overdue debts by credit team and taking legal action to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The details of trade receivables which are past due but not impaired at the end of the reporting period are disclosed in note 21.

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

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

#### *Overview of the Group's exposure to credit risk after application of HKFRS 9 at 1 January 2018*

In order to minimise the credit risk, the management has reviewed the recoverable amounts of trade receivables regularly to ensure that follow-up action is taken timely and assigned a dedicated team to monitor the credit risk. In addition, the Group performed impairment assessment under ECL model upon application of HKFRS 9 which uses a lifetime ECL based on provision matrix. In this regard, the directors of the Company consider that the credit risk on trade receivables is significantly reduced.

For other receivables, management of the Group make periodic individual assessment under 12m ECL on the recoverability of other receivables based on historical settlement records and past history. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

For loan to an associate, the management of the Group make periodic individual assessment under 12m ECL on the recoverability of loan to an associate. The management of the Group had reviewed the recoverable amount at the end of the reporting period to ensure that adequate impairment losses had been made for irrecoverable amounts. The exposure to credit risk is limited.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. FINANCIAL INSTRUMENTS** *(continued)***Financial risk management objectives and policies** *(continued)***Credit risk and impairment assessment** *(continued)**Overview of the Group's exposure to credit risk after application of HKFRS 9 at 1 January 2018 (continued)*

For trade receivables not backed by bank bills, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these by using a provision matrix, grouped by shared credit risk characteristics of these trade receivables.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables not backed by bank bills which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
<b>Age</b>				
0–365 days	3,388,042	1.20%	40,622	3,347,420
1–2 years	704,610	5.62%	39,590	665,020
2–3 years	415,511	25.15%	104,505	311,006
Over 3 years	258,178	64.23%	165,831	92,347
	4,766,341		350,548	4,415,793

In determining the ECL of trade receivables backed by bank bills, the management of the Group considers the probability of default is negligible on the basis of high-credit-rating of the banks issuing the bills, and accordingly, no loss allowance made in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 32. FINANCIAL INSTRUMENTS *(continued)*

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

#### Credit risk and impairment assessment *(continued)*

Overview of the Group's exposure to credit risk after application of HKFRS 9 at 1 January 2018 *(continued)*

For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due RMB'000	Not past due/no fixed repayment terms RMB'000	Total RMB000
Other receivables	41,973	149,178	191,151
Loan to an associate	—	57,700	57,700

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

#### Liquidity risk

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

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

	Weighted average effective interest rate %	Repayable on demand or less than 6 months RMB'000	6 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2018</b>					
Trade and other payables	—	4,629,100	—	4,629,100	4,629,100
Amounts due to directors	—	4,877	—	4,877	4,877
Bank borrowings:					
— variable rate	3.85	202,743	285,627	488,370	481,172
— fixed rate	4.45	1,471,329	1,385,095	2,856,424	2,793,143
		6,308,049	1,670,722	7,978,771	7,908,292



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. FINANCIAL INSTRUMENTS** *(continued)***Financial risk management objectives and policies** *(continued)***Liquidity risk** *(Continued)*

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

**Fair value measurements of financial instruments****Fair value of the Group's financial assets that are measured at fair value on a recurring basis**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 32. FINANCIAL INSTRUMENTS *(continued)*

### Fair value measurements of financial instruments *(continued)*

#### Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(continued)*

Financial assets	31 December 2018 RMB'000	2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial asset at FVTOCI	<b>Unlisted equity investment: 4,262</b>	N/A <i>(Note)</i>	Level 3	Dividend yield model	Dividend yield of several comparable companies.	The lower the multiples, the higher the fair value of unlisted equity security.

Note: Unlisted equity investment was reclassified from available-for-sale investment to financial asset at FVTOCI on the date of initial application of HKFRS 9, i.e. 1 January 2018.

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

## 33. OPERATING LEASE COMMITMENTS

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

	2018 RMB'000	2017 RMB'000
Within one year	<b>564</b>	1,685
In the second to fifth year inclusive	<b>165</b>	–
	<b>729</b>	1,685

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

## 34. CAPITAL COMMITMENT

	2018 RMB'000	2017 RMB'000
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	<b>22,640</b>	11,743

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 35. RETIREMENT BENEFITS SCHEMES

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

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, whose contribution is matched by its employees but subject to a maximum amount of HK\$1,500 per month for each employee.

The total expense recognised in profit or loss of approximately RMB47,624,000 (2017: RMB40,465,000) represents contribution payable to these schemes by the Group at rates specified in the rules of the schemes.

## 36. RELATED PARTIES TRANSACTIONS

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

	2018 RMB'000	2017 RMB'000
Sales of goods to an associate	2,866	13,001
Purchases of goods from an associate	7,186	2,669
Interest income from an associate	6,258	7,394
Amount due from an associate included in trade receivables	27,223	45,236

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

Other than the transactions and balances with related parties above and those disclosed in notes 18 and 25 the Group had no other significant transactions and balances with related parties during the year.

The details of the remuneration of the key management personnel, representing the emoluments of the directors of the Company paid during the year, are set out in note 11.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to directors RMB'000 (note 25)	Bank borrowings RMB'000 (note 26)	Dividend payable RMB'000	Total RMB'000
At 1 January 2017	5,798	3,565,361	–	3,571,159
Financing cash flows (Note)	(562)	(485,194)	(110,636)	(596,392)
Interest expense	–	251,913	–	251,913
Dividends declared	–	–	110,636	110,636
At 31 December 2017	5,236	3,332,080	–	3,337,316
Financing cash flows (Note)	(359)	(376,787)	–	(377,146)
Interest expense	–	319,022	–	319,022
At 31 December 2018	4,877	3,274,315	–	3,279,192

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

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

	2018 RMB'000	2017 RMB'000
Non-current assets		
Interest in a subsidiary	1,381,448	1,381,448
Property, plant and equipment	10	10
	1,381,458	1,381,458
Current assets		
Other receivables	1,705	1,510
Amounts due from subsidiaries	767,841	850,020
Pledged bank deposits	84,932	85,075
Bank balances and cash	6,547	8,629
	861,025	945,234
Current liabilities		
Other payables	3,588	3,110
Amounts due to directors	2,844	3,294
Amount due to a subsidiary	84,565	—
Bank borrowings — due within one year	80,150	275,818
	171,147	282,222
Net current assets	689,878	663,012
Net assets	2,071,336	2,044,470
Capital and reserves		
Share capital	32,951	32,951
Reserves (Note 39)	2,038,385	2,011,519
Total equity	2,071,336	2,044,470

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 39. RESERVES OF THE COMPANY

	Share premium RMB'000	Special reserve RMB'000	Shares held for share award scheme RMB'000	Employee share-based compensation reserve RMB'000	Accumulated profits (losses) RMB'000	Total RMB'000
At 1 January 2017	1,983,889	148,696	(41,364)	2,928	111,811	2,205,960
Loss and total comprehensive expense for the year	–	–	–	–	(83,092)	(83,092)
Recognition of equity-settled share-based payments	–	–	–	188	–	188
Shares vested under share award scheme	–	–	684	(330)	(354)	–
Purchase of shares under share award scheme	–	–	(901)	–	–	(901)
Dividends recognised as distribution (Note 13)	–	–	–	–	(110,636)	(110,636)
At 31 December 2017	1,983,889	148,696	(41,581)	2,786	(82,271)	2,011,519
Profit and total comprehensive income for the year	–	–	–	–	30,082	30,082
Recognition of equity-settled share-based payments	–	–	–	1,905	–	1,905
Purchase of shares under share award scheme	–	–	(5,121)	–	–	(5,121)
At 31 December 2018	1,983,889	148,696	(46,702)	4,691	(52,189)	2,038,385

## 40. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ legal entity	Issued and paid up capital	Attributable equity interest of the Group		Principal country/place of operation	Principal activities
			2018 %	2017 %		
Extra Fame Group Limited*	BVI/ Limited liability	USD10,438,413	100	100	Hong Kong	Investment holding
Wuxi Jiangnan Cable	PRC WFOE <sup>(1)</sup>	USD142,563,484	100	100	PRC	Manufacture of and trading in wires and cables
Jiangnan Cable (HK) Limited	Hong Kong/ Limited liability	HK\$10	100	100	Hong Kong	Investment holding and trading in copper conductors
JNHB Trading Co., Ltd.	Hong Kong/ Limited liability	HK\$100	100	100	Hong Kong	Trading in wires and cables

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**40. SUBSIDIARIES** *(continued)*

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

Name of subsidiary	Place of incorporation/ legal entity	Issued and paid up capital	Attributable equity interest of the Group		Principal country/place of operation	Principal activities
			2018 %	2017 %		
Wuxi New Suneng Electric Power Science & Technology Co., Ltd.	PRC WFOE <sup>(1)</sup>	HK\$141,000,000	100	100	PRC	Manufacture of and trading in aluminium alloy and double capacity conductors
SA Asia Cable (Proprietary) Limited	South Africa/ Limited liability	RAND75,001,000	100	100	South Africa	Trading in wires and cables
Jiangsu Zengyang Investment Company Limited	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Investment holding
Jiangsu Zenghui Investment Co., Ltd.	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Investment holding
Zhongmei Cable	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Manufacture of and trading in wires and cables
New Sun	Cayman Islands/ Limited liability	HK\$1	100	100	Hong Kong	Investment holding
New Sun Cable (HK) Company Limited	Hong Kong/ Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Wuxi New Sun	PRC WFOE <sup>(1)</sup>	RMB208,000,000	100	100	PRC	Manufacture of and trading in wires and cables
Kai Da	Cayman Islands/ Limited liability	HK\$0.01	100	100	Hong Kong	Investment holding
Kai Da Cable (HK) Company Limited	Hong Kong/ Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Jiangsu Kai Da	PRC WFOE <sup>(1)</sup>	RMB208,000,000	100	100	PRC	Manufacture of and trading in wires and cables
Jiangnan Power Assets Limited	BVI/ Limited liability	USD1	100	100	Hong Kong	Investment holding
Jiangnan Power Assets (HK) Limited	Hong Kong/ Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Wuxi Jiangnanhuicong E-business Co., Ltd.	PRC/ Limited liability	RMB10,000,000	—	60	PRC	Trading in wires and cables
Wuxi Changyi Electric Power Engineering Company Limited	PRC WFOE <sup>(1)</sup>	USD10,000,000	100	100	PRC	Engineering, procurement and construction of electric power related projects

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

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

## FINANCIAL SUMMARY

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

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
<b>Results</b>					
Turnover	8,154,555	9,167,273	9,111,232	11,374,969	<b>13,525,377</b>
Cost of goods sold	(6,883,326)	(7,685,477)	(7,753,184)	(10,051,100)	<b>(12,038,767)</b>
Gross profit	1,271,229	1,481,796	1,358,048	1,323,869	<b>1,486,610</b>
Other income	58,442	73,823	84,925	57,099	<b>84,999</b>
Selling and distribution costs	(134,999)	(202,727)	(219,064)	(276,756)	<b>(339,631)</b>
Administrative expenses	(147,993)	(179,185)	(234,598)	(236,272)	<b>(294,556)</b>
Other expenses	(23,491)	(30,732)	(32,205)	(35,387)	<b>(57,543)</b>
Other losses	(450)	(4,166)	(3,514)	(388,833)	<b>(191,669)</b>
Impairment losses on financial assets	(21,000)	(24,834)	(64,026)	(47,969)	<b>(102,452)</b>
Share of results of associates	(1,544)	(1,139)	(12,127)	1,324	<b>(4,836)</b>
Finance costs	(242,055)	(243,316)	(221,635)	(251,913)	<b>(319,022)</b>
Profit before taxation	758,139	869,520	654,804	145,162	<b>261,900</b>
Taxation	(132,123)	(166,259)	(124,930)	(41,250)	<b>(79,479)</b>
Profit for the year	626,016	703,261	529,874	103,912	<b>182,421</b>
<b>Assets and liabilities</b>					
Non-current assets	869,518	1,234,175	1,261,060	1,373,765	<b>1,315,042</b>
Current assets	7,847,989	10,885,090	11,204,561	12,060,102	<b>13,248,862</b>
Total assets	8,717,507	12,119,265	12,465,621	13,433,867	<b>14,563,904</b>
Current liabilities	5,414,785	7,146,023	7,096,600	8,072,819	<b>9,069,052</b>
Non-current liabilities	72,856	77,317	71,929	70,041	<b>70,427</b>
Total liabilities	5,487,641	7,223,340	7,168,529	8,142,860	<b>9,139,479</b>
Net assets	3,229,866	4,895,925	5,297,092	5,291,007	<b>5,424,425</b>