江南集團有限公司
Jiangnan Group Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2019

Stock Code: 1366

One of the Largest Suppliers of

Electric Wires and Cables

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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 2019 interim results report of Jiangnan Group Limited (the "Company", together with its subsidiaries, the "Group") for the six months ended 30 June 2019 to our shareholders.

BUSINESS ENVIRONMENT

In the first half of 2019, the national economy in the People's Republic of China ("China" or the "PRC") faced a downward pressure under the impacts of the Sino-US trade disputes. According to the National Bureau of Statistics of China, in the first half of 2019, China's gross domestic product grew by 6.3% over the corresponding period in 2018, representing a decrease of 0.5 percentage point in the growth rate as compared to the corresponding period in 2018. National fixed asset investments increased by 5.8% over the corresponding period in 2018 to RMB29.9 trillion, representing a decrease of 0.2 percentage point in their growth as compared with that in the corresponding period in 2018.

According to the National Bureau of Statistics of China, in the first half of 2019, the utilisation rate of industrial production capacity in China was 76.2%, representing an increase of 0.5 percentage point over the corresponding period in 2018. In June 2019, China's composite PMI output index was 53.0%, representing a decrease of 0.3 percentage point from the previous month, indicating that China's enterprise production and operation activities continued to expand, but at a slower pace. The manufacturing production index and the non-manufacturing business activity index, which constitute the composite PMI output index, were 51.3% and 54.2% for June 2019, respectively, both representing a decrease over those of the previous month.

According to the National Development and Reform Commission of China, the total electricity consumption in China was 3.4 trillion kilowatt-hours in the first half of 2019, representing an increase of 5.0% over the corresponding period in 2018. The growth rate decreased by 4.4 percentage points over the corresponding period in 2018, which was mainly due to the slowdown in electricity consumption growth in the industrial and manufacturing aspects. In respect of the supply and transmission of electricity, according to the statistics of the Industry Development and Environmental Resources Division of the China Electricity Council, a joint organisation of China's power enterprises and institutions approved to be established by the State Council, the national infrastructure production capacity was 40.74 million kilowatts in the first half of 2019, which was 11.94 million kilowatts lower than that in the corresponding period in 2018, mainly due to the decrease in the installed capacity of new solar energy. From January to May 2019, the major power generation enterprises in China completed investments in respect of power supply works of RMB76.8 billion, which were 5.9% higher than those in the corresponding period in 2018. Among which, the investments in water power amounted to RMB 25.5 billion, representing a period-on-period increase of 33.8%; the investments in thermal power amounted to RMB 16.1 billion, which were 26.6% lower than that in the corresponding period in 2018; the investments in nuclear power amounted to RMB 11.3 billion, representing a decrease of 25.4% over the corresponding period in 2018 and the investments in wind power amounted to RMB 20.5 billion, which were 55.0% higher than those in the corresponding period in 2018. The investments completed under the national grid project amounted to RMB115.7 billion from January to May 2019, representing a decrease of 18.2% over those in the corresponding period in 2018. In spite of the decrease in investments of power grid, the Group's sales of cables in the power segment during the first half of 2019 recorded a period-on-period increase as a result of the growth in the investments in completed power supply works and the increased market concentration.

According to the National Bureau of Statistics of China, national infrastructure investments (excluding the production and supply of electricity, heat, gas and water) reached RMB6.6 trillion in the first half of 2019, representing an increase of 4.1% over the corresponding period in 2018, which was mainly driven by the 8.1% growth in the investments in the road transportation industry and the 14.1% growth in the investments in the railway transportation industry. Having a positive impact on boosting the demand for wires and cables, the overall increase in infrastructure investments has provided strong support to the demand for both general and special power cables of the Group.

CHAIRMAN'S STATEMENT

In order to stabilise property prices and maintain healthy development of the property market, local governments in the PRC introduced various measures according to the specific situations, such as restrictions on the purchase of properties and mortgages. However, the market demand for housing remained strong and real estate investments remained stable with a mild increase in the first half of 2019. According to the National Bureau of Statistics of China, in the first half of 2019, the floor space of commodity housing sold in China decreased by 1.8% over the corresponding period in 2018 to 760 million square metres and the sales increased by 12.3% to RMB7.1 trillion. Investments in real estate development in China reached RMB6.2 trillion in the first half of 2019, representing an increase of 10.9% over the corresponding period in 2018. In the first half of 2019, the floor space of houses under development increased by 10.1% over the corresponding period in 2018 to 1,060 million square metres, while the floor space of houses completed decreased by 12.7% over the corresponding period in 2018 to 320 million square metres. At the end of June 2019, the floor space of houses under construction by developers reached 7,720 million square metres, representing an increase of 8.8% over the corresponding period in 2018. The land area purchased by real estate developers in the first half of 2019 amounted to 80 million square metres, representing a decrease of 27.5% over the corresponding period in 2018. With the implementation of "city-specific policies" based on the principle of "one policy for one city", the sales of real estate have slowed down with downward adjustment reflected in both the growth rates of sales area and sales amount. However, investments in and developments of real estate enterprises remained keen. The floor space under development showed an upturn trend amid fluctuation, while the land area purchased remained stable. The abovementioned factors have little impact on the Group's sales of cables in the first half of 2019.

With respect to copper supply, there were increasing disruptions in the overseas mines in the prior months. For instance, workers at Chuquicamata copper mine in Chile suspended their work for two weeks, the roads to the Las Bambas mine in Peru were closed by the community and new taxes have been imposed on mining in Zambia. Nevertheless, demand for copper remained weak, which resulted in the continuous price drop of copper commodities. For the six-month period ended 30 June 2019, the average price of copper on the London Metal Exchange Limited (the "LME") was USD6,167 per tonne, which was 10.8% lower than that in the corresponding period in 2018. For the six-month period ended 30 June 2019, the average price of aluminium on the LME was USD1,378 per tonne, which was 25.0% lower than that in the corresponding period in 2018. As the Group prices its products on a cost-plus basis, the decrease in raw material prices has led to the downward adjustment of the Group's product prices, affecting the income of the Group for the period under review.

BUSINESS REVIEW

For the six-month period ended 30 June 2019, despite being held back by the decline in the prices of commodities, such as copper and aluminium, the Group recorded a turnover of approximately RMB6,247.0 million, representing an increase of approximately 7.5% as compared with that in the corresponding period in 2018.

In the first half of 2019, the negative impacts imposed by the Sino-US trade tension on global economic development, coupled with the downward pressure on China's economy and the change in the market structure of the cable and wire industry, have brought along great challenges to the operation of the Company. The reduction of investments in grids by the State Grid Corporation of China during the first half of 2019 also applied pressure on the sales of cable enterprises. Tougher requirements in respect of green development practices, such as energy conservation and emission reduction implemented by China have, to a certain extent, given rise to the increase in the operating costs of enterprises. In addition, notwithstanding the downward adjustment of value-added tax from 16% to 13%, the Group's costs during the transition period increased as a result of customers' demand for sales discounts from the Group. As such, the Group has not benefited from the reduced rate of value-added tax. During the six months ended 30 June 2019, the increase in the Group's turnover, coupled with the cost control measures complemented by the Group, have contributed to a significant increase in the profit attributable to the owners of the Company. Moreover, the new requirements on provision for bad and doubtful debts of trade receivables resulting from the continued application of the Hong Kong Financial Reporting Standard 9 has led to the requirement on provision for impairments by the Group in the first half of 2019. Accordingly, the profit attributable to the owners of the Company amounted to approximately RMB118.2 million, representing an increase of approximately 47.8% only over the corresponding period in 2018.

In March 2019, the Group obtained the government approval for the addition of eight medium and high-voltage cross-linked production lines. The Group will carry out the intelligent expansion and technical adjustment of the medium-voltage production lines in a scheduled and step-by-step manner according to the actual developments made. Upon completion of the project, the product quality and production efficiency of medium and high-voltage cross-linked cables of the Group will be significantly enhanced, and the delivery period and customer satisfaction will be further improved in addition to energy saving and consumption reduction.

In respect of the Group's overseas business, there was a period-on-period increase of 12.7% in the self-operated export volume of overseas markets in the first half of 2019, and the overall development was in line with expectations. In May 2019, the United States imposed an anti-dumping sanction on certain aluminum cables exported by the Group. The investigations on anti-subsidy and anti-dumping have affected the foreign trading business of the Group to a certain extent. The continued friction of Sino-US trade has affected the confidence of global economic development, which in turn has affected the Group's overseas export business. The Group will continue to focus on its two markets, i.e. the international market and the domestic market. While expanding its international market, the Group will also step up its efforts in expanding its domestic market by increasing domestic demand for its products with an aim to steadily improving its turnover.

Adhering to the strategy of "Made in China 2025", the Group continued to improve its standard and capability in "Intelligent Manufacturing" and "Informatisation & Industrialisation Integration". The Group will continue to increase its investments in information and intelligent development, with projects such as SAP business and finance integration, factory test traceability system, remote supervision on manufacture and intelligent manufacturing of UHV workshop currently being implemented. Through the introduction of intelligent software and hardware for big-data collection, the Group will realise process restructuring, process optimisation and improvement in development efficiency, which will support the quality development of the Group.

During the period under review, the Group continued to rank among the "Top 500 Manufacturing Companies in the PRC", and the "Top 50 Self-developed Industrial Brands in Jiangsu Province". It was awarded the "2019 Top 100 Private Companies in Jiangsu Province" and the "Top 100 Private Manufacturing Companies in Jiangsu Province", and was selected as the "First-class Domestic Enterprise R&D Institutions Incubation Plan Database".

STRATEGIES AND PROSPECTS

In 2019, both the domestic and the global economies have become highly unstable under the impacts of the diplomatic policies and crises of various countries, in particular the trade disputes between the PRC and the United States. Although the Group has operated primarily in the Chinese market and has reaped the benefits from China's "One Belt, One Road" initiative, the "Yangtze River Economic Zone" development plan, the "Guangdong-Hong Kong-Macau Greater Bay Area" plan and the "Free Trade Zone" establishments in various provinces in the PRC, the overall development of the Group has been affected considerably by the slowdown in the economic growth of the PRC. However, with further developments in the construction of urban underground utility tunnels, sponge cities and smart cities, upgrades of power distribution networks, enhanced controls over pollution and smog, and the rise of low-carbon, energy-saving and environmental protection awareness in the PRC, the Group remains confident in the prospects of the wire and cable business in China.

CHAIRMAN'S STATEMENT

Based on the analysis of the macroeconomic situation in 2019 and China's national policies, the Group has set the overall direction of its operations in 2019. In 2019, the Group will continue to intensify its development in "intelligent" and "green" manufacturing by increasing its investments in intelligent hardware and software and transforming its existing hardware and software towards intelligence, and build "smart workshops" with an aim to gradually establish a "smart factory", thereby marching towards the goal of intelligent, green and centralized development. The Group will also continue to boost its research and development efforts in relation to new products and accelerate the transformation of these new products to production. In terms of products, the Group will focus on the development of cables with special characteristics, such as energy-saving and environmentally-friendly wires, extra-high voltage cables and power cables for nuclear plants. In terms of markets, the Group will strive to satisfy the personalised customisation needs of its customers, improve the quality of its products steadily with an aim to enlarge the Group's market share, continue to penetrate into the domestic and international markets, strengthen its strategic cooperation relationships with the State Grid Corporation of China, the China Southern Grid and the five major power generation corporations in the PRC, actively participate in the construction of landmark projects of the PRC government and high-quality projects of listed companies, and focus on the developments in the rail transit, new energy and military sectors in the PRC. All-in-all, the Group will strive to improve the efficiency and quality of its development.

While the performance of its sales in the first half of 2019 was impressive, the Group is clearly aware of certain problems in its operation:

1. In light of the increasing uncertainties in macroeconomic development in the PRC and abroad, the Group will persist to work diligently on high-end wire and cable products, and materials and processes, focus on the breakthrough of key technologies, strengthen the protection of intellectual property rights, accelerate the transformation and upgrade of the Group with an aim to building a premium and quality brand image as well as improving its competitiveness in the international market.

2. As of 30 June 2019, the Group's outstanding trade receivables due from external parties remained at high level. Although the Group's business growth was mainly driven by the increase in its sales, the profit of the Group has decreased to a certain extent due to its failure to recover outstanding trade receivables in a timely manner. Aiming at accelerating its capital recovery and reducing its operational risks, the Group always puts the prevention and control of operational risks as its first priority during its operations, strengthens its internal control in various aspects, such as sales, production and finance, and consolidates its management base.

3. Taking into consideration that the net cash used by the Group in its operating activities in the first half of 2019 was quite substantial and it is expected that there will be an increase in the Group's future capital expenditures, the Group shall further consider and explore financing options to provide sufficient resources for its future development.

ACKNOWLEDGEMENT

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

Chu Hui
Chairman and Chief executive officer
Hong Kong, 12 August 2019

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Chu Hui *(Chairman, Chief Executive Officer and Chairman of the Corporate Governance Committee)*
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Jiang Yongwei *(Vice-president)*

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Yang Rongkai
Kan Man Yui Kenneth *(Chairman of the Audit Committee)*

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STOCK CODE
1366

WEBSITE
www.jiangnangroup.com

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 period under review, the Group recorded a turnover of approximately RMB6,247.0 million, representing an increase of approximately 7.5% as compared with that in the corresponding period in 2018, and a profit attributable to owners of the Company of approximately RMB118.2 million, representing an increase of approximately 47.8% as compared with that in the corresponding period in 2018. The increase in the profit attributable to owners of the Company for the period under review was mainly due to (i) the increase in turnover as compared with that in the corresponding period in 2018 as mentioned above; (ii) the reduction in selling and distribution costs by approximately 8.3% as compared with that in the corresponding period in 2018 as a result of the tightening of control by the Group over its expenses during the period under review; (iii) the reduction in administrative expenses by approximately 23.8% as compared with that in the corresponding period in 2018, which was mainly due to (a) the decrease in other tax charges as a result of tax concession; and (b) the decrease in travelling expenses during the period under review; (iii) the turning of an exchange loss for the six-month period ended 30 June 2018 to an exchange gain, which was included in other gains (losses) during the period under review; and (iv) the reduction in finance costs by approximately 8.0% as compared with that in the corresponding period in 2018, which was mainly due to the reduction in the interest rates used in the discounting of bank and commercial bills during the period under review, all offset by the increase in the impairment losses on financial assets, net of reversal by 19.8% as compared with that in the corresponding period in 2018. The Group's gross profit margin for the period under review has decreased by approximately 1.1% to 10.5% (six-month period ended 30 June 2018: 11.6%). Basic earnings per share for the period under review was RMB2.94 cents while that for the six-month period ended 30 June 2018 was RMB1.98 cents, representing an increase of approximately 48.5%.

MARKET AND BUSINESS REVIEW

According to the statistical data published by the National Bureau of Statistics of the PRC, the period-on-period growth rate of the gross domestic product of the PRC dropped to 6.3% in the first half of 2019. The domestic economy has been facing downside pressure as a result of the Sino-US trade disputes. The uncertain macroeconomic environment has resulted in lower growth in national fixed asset investments and sign of slowdown in business activities by Chinese enterprises. All these, in return, have affected the Group's business development. For the six-month period ended 30 June 2019, the average price of copper on the London Metal Exchange Limited was USD6,167 per tonne, which was 10.8% lower than that in the corresponding period in 2018. For the six-month period ended 30 June 2019, the average price of aluminium was USD1,378 per tonne, which was 25.0% lower than that in the corresponding period in 2018. As the Group prices its products on a cost-plus basis, the decrease in raw material prices has driven down the Group's average product prices, which partially offset the turnover growth of the Group caused by the increase in the sales volume of the Group during the period under review.

TURNOVER

For the six-month period ended 30 June	Turnover			Gross Profit Margin		
	2019 RMB million	2018 RMB million	Percentage Change	**2019**	2018	Change
Power cables	**4,443.4**	4,021.5	10.5%	**10.4%**	11.3%	-0.9%
Wires and cables for electrical equipment	**1,240.8**	1,149.7	7.9%	**6.7%**	8.8%	-2.1%
Bare wires	**162.3**	176.1	-7.9%	**10.5%**	11.6%	-1.1%
Special cables	**400.5**	464.7	-13.8%	**23.8%**	21.2%	2.6%
Total	**6,247.0**	5,812.0	7.5%	**10.5%**	11.6%	-1.1%

MANAGEMENT DISCUSSION AND ANALYSIS

Power cable products — 71.1% of total turnover

The growth in the Group's cable sales in the PRC remained strong in the first half of 2019. For the period under review, revenue from power cable products amounted to approximately RMB4,443.4 million, representing an increase of approximately 10.5% over that for the corresponding period in 2018 (six-month period ended 30 June 2018: RMB4,021.5 million), and turnover of power cables accounted for approximately 71.1% of the total turnover of the Group. Sales volume of the Group's power cable products significantly increased by approximately 17.4% to approximately 102,711 km (six-month period ended 30 June 2018: 87,510 km), which was mainly attributed to the increase in the sales of such products to clients in the energy sector as a result of increase in completed investments in respect of power supply works and the enhancement of market concentration in the wire and cable industry, which allowed the Group to secure more sales orders and contracts during the period under review. Due to the decrease in average copper price, the average price of power cable products for the period under review decreased by approximately 5.9% to approximately RMB43,261 per km (six-month period ended 30 June 2018: RMB45,955 per km). Gross profit for the period under review increased to approximately RMB461.2 million (six-month period ended 30 June 2018: RMB455.7 million), and gross profit margin decreased to approximately 10.4% (six-month period ended 30 June 2018: 11.3%) due to the increase in the cost of goods sold which was driven by the increase in raw materials consumed in production, and the decrease in the average price of power cable products due to the discounts offered to some customers.

Wire and cable for electrical equipment products — 19.9% of total turnover

For the period under review, turnover from wires and cables for electrical equipment increased by approximately 7.9% to approximately RMB1,240.8 million (six-month period ended 30 June 2018: RMB1,149.7 million). Sales volume of wires and cables for electrical equipment increased by approximately 15.1% from approximately 551,384 km for the six-month period ended 30 June 2018 to approximately 634,916 km for the period under review. Average price of wires and cables for electrical equipment decreased by approximately 6.3% from approximately RMB2,085 per km for the six-month period ended 30 June 2018 to approximately RMB1,954 per km for the period under review, mainly due to the decrease in the average copper price during the period under review. The gross profit for the period under review decreased to approximately RMB83.3 million (six-month period ended 30 June 2018: RMB100.8 million) and the gross profit margin for the period under review decreased to approximately 6.7% (six-month period ended 30 June 2018: 8.8%), mainly due to the increase in the cost of goods sold, which was driven by the increase in raw materials consumed in production.

Bare wire products — 2.6% of total turnover

Due to the decrease in the average aluminium price, turnover from bare wires decreased by approximately 7.9% to approximately RMB162.3 million (six-month period ended 30 June 2018: RMB176.1 million) for the period under review and sales volume of bare wires decreased slightly by approximately 1.4% from approximately 12,376 tonnes for the six-month period ended 30 June 2018 to approximately 12,200 tonnes for the period under review. The average price of bare wire products decreased by approximately 6.6% to approximately RMB13,296 per tonne (six-month period ended 30 June 2018: RMB14,228 per tonne) due to the decrease in the average aluminium price. The gross profit margin decreased by approximately 1.1% to 10.5% for the period under review (six-month period ended 30 June 2018: 11.6%).

Special cable products — 6.4% of total turnover

During the period under review, the sales volume of special cables decreased to approximately 22,791 km (six-month period ended 30 June 2018: 24,089 km). The average selling price of special cables decreased by approximately 8.9% from approximately RMB19,291 per km for the six-month period ended 30 June 2018 to approximately RMB17,574 per km for the period under review. This decrease in the average selling price was mainly due to the decrease in the average copper price during the period under review. However, gross profit margin of special cables increased by approximately 2.6% to approximately 23.8% (six-month period ended 30 June 2018: 21.2%) as a result of the increase in the proportion of Group's sales of special cables with higher gross profit margin to clients during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover by Geographical Markets

The PRC remains the Group's key market. Sales in the PRC market for the period under review increased by approximately 7.4% to approximately RMB6,090.4 million (six-month period ended 30 June 2018: RMB5,673.2 million), which accounted for approximately 97.5% of the Group's total turnover, and such increase was primarily due to the increase in the sales to customers in the energy and industrial sectors in the PRC during the period under review.

Revenue contributed by the overseas markets for the period under review increased by approximately RMB17.7 million or approximately 12.7% as compared with that for the corresponding period in 2018. This increase was mainly attributable to the increase in sales in Singapore and Vietnam during the period under review.

Cost of Goods Sold

Cost of goods sold which was composed of the costs of raw materials, production costs and direct labour costs, increased by approximately 8.8% to approximately RMB5,590.0 million during the period under review (six-month period ended 30 June 2018: RMB5,136.9 million). Costs of raw materials accounted for approximately 95.7% of cost of goods sold for the period under review, of which copper and aluminium were the Group's major raw materials accounting for approximately 79.4% of cost of goods sold for the period under review on an aggregate basis. Direct labour costs decreased slightly and accounted for approximately 1.2% of the total cost of goods sold for the period under review. The remaining balance of approximately 3.1% of the cost of goods sold for the period under review was attributable to production costs which mainly consisted of depreciation of equipment used in the production process, maintenance of production lines and equipment, moulding of parts and components and other miscellaneous production-related costs.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately RMB18.1 million, or approximately 2.7%, from approximately RMB675.1 million for the six-month period ended 30 June 2018 to approximately RMB657.0 million for the period under review. Gross profit margin decreased to approximately 10.5% for the period under review from approximately 11.6% for the six-month period ended 30 June 2018. The decrease in gross profit and gross profit margin for the period under review was mainly due to the increase in cost of goods sold driven by the increase in raw materials consumed in production and the discounts offered to some customers during the period under review.

Profit for the Period Attributable to Owners of the Company

Profit for the period attributable to owners of the Company increased significantly by approximately 47.8% from approximately RMB80.0 million for the six-month period ended 30 June 2018 to approximately RMB118.2 million for the period under review. This increase was mainly due to the reduction in selling and distribution costs, administrative expenses and finance costs, as well as the turning of an exchange loss for the six months ended 30 June 2018 to an exchange gain which was included in other gains (losses) during the period under review, partially offset by the increase in impairment losses on financial assets, net of reversal during the period under review.

Selling and Distribution Costs

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

The selling and distribution costs decreased by approximately RMB13.2 million, or approximately 8.3%, from approximately RMB158.5 million for the six-month period ended 30 June 2018 to approximately RMB145.2 million for the period under review. The decrease in selling and distribution costs was mainly due to the decrease in marketing expenses spent on business development and the bidding of projects from new customers, which was partially offset by (i) the increase in the transportation costs for delivering products to customers; and (ii) the increase in the salaries of salespersons. The selling and distribution costs as a percentage of turnover slightly decreased from approximately 2.7% for the six-month period ended 30 June 2018 to approximately 2.3% for the period under review.

Administrative Expenses

Administrative expenses decreased by approximately RMB36.7 million, or approximately 23.8%, from approximately RMB154.1 million for the six-month period ended 30 June 2018 to approximately RMB117.4 million for the period under review, mainly due to (a) the decrease in other tax charges as a result of tax concession; and (b) the decrease in travelling expenses incurred during the period under review. As a result, the administrative expenses as a percentage of turnover decreased from approximately 2.7% for the six-month period ended 30 June 2018 to approximately 1.9% for the period under review.

Research and Development Costs

Research and development costs increased by approximately 4.0% from approximately RMB27.8 million for the six-month period ended 30 June 2018 to approximately RMB28.9 million for the period under review. This increase was mainly resulted from the increase in the Group's expenditures on research and development of new products and technology in relation to higher gross margin products during the period under review, as compared to those in the corresponding period in 2018.

Other Gains (Losses)

Other gains (losses) were composed of exchange gain (loss), gain (loss) on disposal of property, plant and equipment and loss on deregistration of a subsidiary. Other gains (losses) turned from net losses of approximately RMB6.7 million for the six-month period ended 30 June 2018 to net gains of approximately RMB14.3 million for the period under review, which was mainly due to the turning of an exchange loss for the six months ended 30 June 2018 to an exchange gain for the period under review.

Impairment Losses on Financial Assets, Net of Reversal

Impairment losses on financial assets, net of reversal represented the impairment losses on trade and other receivables, which increased by approximately RMB17.3 million, or approximately 19.8%, from approximately RMB87.2 million for the six-month period ended 30 June 2018 to approximately RMB104.5 million for the period under review. The increase was mainly due to the increase in impairment losses on trade receivables arising from the increase in the balance of long-outstanding trade receivables aged over 90 days as at 30 June 2019.

Finance Costs

Finance costs decreased by approximately 8.0% from approximately RMB167.7 million for the six-month period ended 30 June 2018 to approximately RMB154.3 million for the period under review. Finance costs as a percentage of turnover decreased from approximately 2.9% for the six-month period ended 30 June 2018 to approximately 2.5% for the period under review, which was mainly attributed to the reduction in the interest rates used in the discounting of bank and commercial bills used in financing the Group's operations.

Taxation

The Group's taxation increased by approximately RMB6.6 million, or approximately 26.2%, from approximately RMB25.2 million for the six-month period ended 30 June 2018 to approximately RMB31.8 million for the period under review. The increase in taxation was due to the increase in taxable income during the period under review. The effective tax rate for the period under review was approximately 21.2% (six-month period ended 30 June 2018: 23.9%). The decrease in the effective tax rate was mainly due to the decrease in the losses generated form the subsidiaries of the Company overseas which did not have assessable profits.

Financial Position and Liquidity

As at 30 June 2019, total assets of the Group amounted to approximately RMB15,025.3 million (31 December 2018: RMB14,563.9 million).

Non-current assets decreased slightly by approximately 0.05% from approximately RMB1,315.0 million as at 31 December 2018 to approximately RMB1,314.4 million as at 30 June 2019. The decrease was due to the decrease in the carrying values of property, plant and equipment, which was partially offset by the increase in the deposits paid for acquisition of property, plant and equipment during the period under review.

Current assets increased by approximately 3.5% from approximately RMB13,248.9 million as at 31 December 2018 to approximately RMB13,710.9 million as at 30 June 2019, which was mainly due to (i) the increase in trade and other receivable outstanding as a result of the increase in the turnover of the Group during the period under review; and (ii) the increase in inventories arising from the undelivered finished goods as at 30 June 2019.

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

Total bank borrowings increased by approximately 10.3% from approximately RMB3,274.3 million as at 31 December 2018 to approximately RMB3,611.9 million as at 30 June 2019. Of the Group's total bank borrowings as at 30 June 2019, approximately 97.8% of the short-term borrowings were made by the Group's subsidiaries in the PRC. These loans were not guaranteed by the Company.

Equity attributable to the owners of the Company was approximately RMB5,544.0 million as at 30 June 2019, which was approximately 2.2% higher than that of approximately RMB5,424.4 million as at 31 December 2018. The increase was mainly contributed by the profits attributable to the owners of the Company generated during the period under review.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash and pledged bank deposits) of approximately negative RMB952.2 million over total equity of approximately RMB5,544.0 million as at 30 June 2019, increased from approximately -25.6% as at 31 December 2018 to approximately -17.2%. As compared with the net-debt-to-equity ratio of 0.05% as at 30 June 2018, the net-debt-to-equity ratio of the Group as at 30 June 2019 had improved. The increase in net-debt-to-equity ratio as compared with that as at 31 December 2018 was mainly due to the increase in bank borrowings raised for financing the Group's operations during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group had sufficient committed but unused banking facilities of approximately RMB1,519.4 million as at 30 June 2019 to meet the needs of the Group's business development. There was no material seasonality in relation to the borrowing requirements of the Group.

During the period under review, the Group's borrowings were mainly denominated in Renminbi (the "RMB") and carried interest at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China. As at 30 June 2019, 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 major expenses were denominated either in RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the period under review.

As at 30 June 2019, approximately 89.8% (31 December 2018: 85.3%) of the Group's total bank borrowings carried fixed interest rates.

All of the Group's bank borrowings as at 30 June 2019 and 31 December 2018 were due within one year.

During the period under review, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB57,000 (six- month period ended 30 June 2018: RMB513,000) for cash proceeds of approximately RMB138,000 (six-month period ended 30 June 2018: RMB262,000), resulting in a gain on disposal of approximately RMB81,000 (six-month period ended 30 June 2018 : loss of RMB251,000).

As at 30 June 2019, the Group has pledged certain of its buildings and machinery with carrying amounts of approximately RMB170.0 million and approximately RMB22.1 million respectively (31 December 2018: RMB181.3 million and RMB27.1 million respectively) to certain banks to secure credit facilities granted to the Group.

During the six-month periods ended 30 June 2019 and 2018, no interest expense has been capitalised.

During the six-month periods ended 30 June 2019 and 2018, the Group did not employ any financial instruments for hedging purposes.

Capital Commitments

The capital expenditures in the second half of 2019 are expected to be settled by cash through internal resources of the Group. Please refer to Note 16 of Notes to the Condensed Consolidated Financial Statements for the details of the capital commitments of the Group as at 30 June 2019. 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 second half of 2019 with reference to the current situation as at the date of this interim report.

Contingent Liabilities

As at 30 June 2019, neither the Group nor the Company had any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$448.1 million (equivalent to approximately RMB370.0 million), which were intended to be applied in the manner consistent with that in the prospectus of the Company dated 10 April 2012 had mostly been utilised. As at the date of this report, approximately HK$115.0 million in aggregate of the net proceeds allocated to set up production facilities for aluminium alloy and double capacity conductors had been fully utilised, approximately HK$97.0 million in aggregate of the net proceeds allocated to set up a manufacturing facility in South Africa had been fully utilised, approximately HK$74.0 million of the net proceeds allocated for the upgrade and expansion of existing production facilities and enhancement of research and development capabilities had been fully utilised, approximately HK$14.1 million of the net proceeds allocated for acquisitions had been fully utilised by the acquisition of Jiangsu Zengyang Investment Company Limited in 2013, and out of approximately HK$148.0 million of the net proceeds which was allocated for the expansion of the Group's production facilities for high and extra-high voltage cables, only approximately HK$93.1 million had been utilised. During the period under review, approximately HK$2.1 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.

Outlook and Prospects

In 2019, both the domestic and the global economies have become highly unstable under the impacts of the diplomatic policies and crises of various countries, in particular the trade disputes between the PRC and the United States. Although the Group has operated primarily in the Chinese market and has reaped the benefits from the Chinese "One Belt, One Road" initiative, the "Yangtze River Economic Zone" development plan, the "Guangdong-Hong Kong-Macau Greater Bay Area" plan and the "Free Trade Zone" establishments in various provinces in the PRC, the overall development of the Group has been affected considerably by the slowdown in the economic growth of the PRC. However, with further developments in the construction of urban underground utility tunnels, sponge cities and smart cities, upgrades of power distribution networks, enhanced controls over pollution and smog, and the rise of low-carbon, energy-saving and environmental protection awareness in the PRC, the Group remains confident in the prospects of the wire and cable business in China.

Based on the analysis of the macroeconomic situation in 2019 and China's national policies, the Group has set the direction of its operations. In 2019, the Group will continue to intensify its development in "intelligent" and "green" manufacturing by increasing its investments in intelligent hardware and software and transforming its existing hardware and software towards intelligence, and build "smart workshops" with an aim to gradually establish a "smart factory". The Group will also continue to boost its research and development efforts in relation to new products and accelerate the transformation of these new products to production. In terms of products, the Group will focus on the development of cables with special characteristics, such as energy-saving and environmentally-friendly wires, extra-high voltage cables and power cables for nuclear plants. In terms of markets, the Group will strive to satisfy the personalised customisation needs of its customers, improve the quality of its products steadily with an aim to enlarge the Group's market share, continue to penetrate into the domestic and international markets, strengthen its strategic cooperation relationships with the State Grid Corporation of China, the China Southern Grid and the five major power generation corporations in the PRC, actively participate in the construction of landmark projects of the PRC government and high-quality listed companies, and focus on the developments in the rail transit, new energy and military sectors in the PRC. All-in-all, the Group will strive to improve the efficiency and quality of its development.

UNAUDITED INTERIM RESULTS

As at 30 June 2019

The board (the "Board") of directors (the "Directors") of Jiangnan Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2019 together with the comparative figures for the corresponding period in 2018:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

		Six-month period ended	
	Notes	**30.6.2019 RMB'000 (unaudited)**	30.6.2018 RMB'000 (unaudited)
Turnover	3	**6,246,963**	5,811,987
Cost of goods sold		**(5,590,002)**	(5,136,908)
Gross profit		**656,961**	675,079
Other income	4	**34,400**	35,123
Selling and distribution costs		**(145,234)**	(158,453)
Administrative expenses		**(117,427)**	(154,079)
Research and development costs		**(28,858)**	(27,758)
Other gains (losses)	5	**14,311**	(6,725)
Impairment losses on financial assets, net of reversal	6	**(104,508)**	(87,210)
Share of results of associates		**(5,390)**	(3,093)
Finance costs		**(154,267)**	(167,741)
Profit before taxation	7	**149,988**	105,143
Taxation	8	**(31,769)**	(25,173)
Profit for the period attributable to owners of the Company		**118,219**	79,970
Other comprehensive 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		**(301)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**1,275**	(5,374)
Total comprehensive income for the period attributable to owners of the Company		**119,193**	74,596
Earnings per share — Basic	10	**RMB2.94 cents**	RMB1.98 cents
— Diluted		**RMB2.94 cents**	RMB1.98 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	869,504	879,127
Right-of-use assets		306,557	–
Land use rights		–	301,601
Deposits paid for acquisition of property, plant and equipment		17,796	11,870
Goodwill		54,775	54,775
Interests in associates		2,954	2,997
Loan to an associate		56,465	57,700
Equity instrument at fair value through other comprehensive income		3,961	4,262
Deferred tax assets		2,416	2,710
		1,314,428	1,315,042
Current assets			
Inventories		3,370,768	3,208,237
Trade and other receivables	12	5,775,978	5,379,213
Pledged bank deposits		2,234,697	2,068,956
Bank balances and cash		2,329,435	2,592,456
		13,710,878	13,248,862
Current liabilities			
Trade and other payables	13	4,785,234	4,846,630
Contract liabilities		937,572	851,224
Amounts due to directors		4,787	4,877
Bank borrowings — due within one year	14	3,611,902	3,274,315
Lease liabilities		928	–
Taxation payable		69,227	92,006
		9,409,650	9,069,052
Net current assets		4,301,228	4,179,810
Total assets less current liabilities		5,615,656	5,494,852
Non-current liabilities			
Lease liabilities		35	–
Deferred tax liabilities		71,609	70,427
		71,644	70,427
Net assets		5,544,012	5,424,425
Capital and reserves			
Share capital	15	32,951	32,951
Reserves		5,511,061	5,391,474
Total equity		5,544,012	5,424,425

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2019

	Share capital	Share premium	Special reserve	Shares held for share award scheme	Employee share-based compensation reserve	Investment Revaluation Reserve	Non-distributable reserve	Statutory reserve	Translation reserve	Accumulated profits	Subtotal	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	*(Note 18)*	*(Note 18)*		*(Note b)*	*(Note c)*					
As at 31 December 2017 (audited)	32,951	1,983,889	148,696	(41,581)	2,786	–	77,351	423,707	(27,048)	2,689,704	5,290,455	552	5,291,007
Adjustments	–	–	–	–	–	(1,740)	–	–	–	(36,409)	(38,149)	–	(38,149)
As 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
Exchange differences arising from translation of a foreign operation	–	–	–	–	–	–	–	–	(5,374)	–	(5,374)	–	(5,374)
Profit for the period	–	–	–	–	–	–	–	–	–	79,970	79,970	–	79,970
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(5,374)	79,970	74,596	–	74,596
Recognition of equity-settled share-based payments	–	–	–	–	1,082	–	–	–	–	–	1,082	–	1,082
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(552)	(552)
Transfers	–	–	–	–	–	–	–	12,399	–	(12,399)	–	–	–
As at 30 June 2018 (unaudited)	32,951	1,983,889	148,696	(41,581)	3,868	(1,740)	77,351	436,106	(32,422)	2,720,866	5,327,984	–	5,327,984
As at 31 December 2018 (audited)	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
Fair value loss on investment in equity instrument at fair value through other comprehensive income	–	–	–	–	–	(301)	–	–	–	–	(301)	–	(301)
Exchange differences arising from translation of a foreign operation	–	–	–	–	–	–	–	–	1,275	–	1,275	–	1,275
Profit for the period	–	–	–	–	–	–	–	–	–	118,219	118,219	–	118,219
Total comprehensive income for the period	–	–	–	–	–	(301)	–	–	1,275	118,219	119,193	–	119,193
Recognition of equity-settled share-based payments	–	–	–	–	394	–	–	–	–	–	394	–	394
Shares vested under share award scheme	–	–	–	6,512	(5,085)	–	–	–	–	(1,427)	–	–	–
Transfers	–	–	–	–	–	–	–	17,670	–	(17,670)	–	–	–
As at 30 June 2019 (unaudited)	32,951	1,983,889	148,696	(40,190)	–	(3,129)	77,351	467,249	(31,771)	2,908,966	5,544,012	–	5,544,012

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 the Group's reorganisation in 2012.

(b) The non-distributable reserve represents the capitalisation of retained profit of Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) ("Wuxi Jiangnan Cable") for the capital re-investment in Wuxi Jiangnan Cable in 2007.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Cash (used in) generated from operations	**(203,222)**	342,558
PRC income tax paid	**(53,072)**	(29,417)
Net cash (used in) generated from operating activities	**(256,294)**	313,141
Investing activities		
Release of pledged bank deposits	**1,273,884**	1,203,241
Interest received	**23,083**	23,733
Proceeds from disposal of property, plant and equipment	**138**	262
Bank deposits pledged	**(1,439,625)**	(1,389,171)
Purchase of property, plant and equipment	**(30,009)**	(34,188)
Deposits paid for acquisition of property, plant and equipment	**(17,796)**	(10,291)
Payments for rental deposits	**(95)**	–
Net cash used in investing activities	**(190,420)**	(206,414)
Financing activities		
New bank borrowings raised	**2,099,300**	4,548,597
Advances from directors	**1,764**	672
Repayment of bank borrowings	**(1,761,713)**	(4,429,198)
Interest paid	**(154,258)**	(167,741)
Repayment to directors	**(1,854)**	(1,245)
Repayment of lease liabilities	**(351)**	–
Net cash generated from (used in) financing activities	**182,888**	(48,915)
Net (decrease) increase in cash and cash equivalents	**(263,826)**	57,812
Cash and cash equivalents at beginning of the period	**2,592,456**	1,479,759
Effect of foreign exchange rate changes	**805**	(1,593)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**2,329,435**	1,535,978

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2019 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

Impacts and changes in accounting policies on application of HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or the modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 16 *(continued)*

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted for on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease components, and instead accounts for the lease components and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption to leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying assets to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from the commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item in its consolidated statement of financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 16 *(continued)*

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted for under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of the lease payments that are unpaid at that date. In calculating the present value of the lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date of a lease, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment; and
- the lease payments change in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 16 *(continued)*

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases by 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of its initial application of HKFRS 16.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and the comparative information has not been restated.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately RMB508,000 and right-of-use assets of approximately RMB310,407,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.35%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	729
Lease liabilities discounted at relevant incremental borrowing rates	686
Less: Recognition exemption — short-term leases	(178)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and lease liabilities as at 1 January 2019	508
Analysed as	
Current	348
Non-current	160
	508

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 "Leases" *(continued)*

Transition and summary of effects arising from initial application of HKFRS 16 *(continued)*

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		508
Reclassified from land use rights	(a)	309,899
		310,407
By class:		
Land and buildings		310,407

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2018 RMB'000**	**Impacts of adopting HKFRS 16 RMB'000**	**Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000**
Right-of-use assets		**–**	**310,407**	**310,407**
Land use rights	(a)	**301,601**	**(301,601)**	**–**
Trade and other receivables	(a)	**5,379,213**	**(8,298)**	**5,370,915**
Lease liabilities — current		**–**	**(348)**	**(348)**
Lease liabilities — non-current		**–**	**(160)**	**(160)**

Note a: Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current portion of land use rights (included in trade and other receivables) and the non-current portion of land use rights amounting to approximately RMB8,298,000 and approximately RMB301,601,000 respectively were reclassified to right-of-use assets.

For the purpose of reporting cash flows from operating activities under the indirect method for the six-month period ended 30 June 2019, movements in working capital have been computed based on the balances recorded in the opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER AND SEGMENT INFORMATION *(continued)*

The information of segment results is as follows:

	Six-month period ended	
	30.6.2019	30.6.2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
— power cables	**4,443,395**	4,021,477
— wires and cables for electrical equipment	**1,240,822**	1,149,722
— bare wires	**162,215**	176,090
— special cables	**400,531**	464,698
	6,246,963	5,811,987
Cost of goods sold		
— power cables	**3,982,226**	3,565,811
— wires and cables for electrical equipment	**1,157,552**	1,048,957
— bare wires	**145,197**	155,741
— special cables	**305,027**	366,399
	5,590,002	5,136,908
Segment results		
— power cables	**461,169**	455,666
— wires and cables for electrical equipment	**83,270**	100,765
— bare wires	**17,018**	20,349
— special cables	**95,504**	98,299
	656,961	675,079

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. TURNOVER AND SEGMENT INFORMATION *(continued)*

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

	Six-month period ended	
	30.6.2019	30.6.2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Reportable segment results	**656,961**	675,079
Unallocated income and expenses		
— Other income	**34,400**	35,123
— Selling and distribution costs	**(145,234)**	(158,453)
— Administrative expenses	**(117,427)**	(154,079)
— Research and development costs	**(28,858)**	(27,758)
— Other gains (losses)	**14,311**	(6,725)
— Impairment losses on financial assets, net of reversal	**(104,508)**	(87,210)
— Share of results of associates	**(5,390)**	(3,093)
— Finance costs	**(154,267)**	(167,741)
Profit before taxation	**149,988**	105,143

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

Geographical information

More than 90% of the Group's sales were made to customers in the PRC (country of domicile) for both reporting periods. More than 90% of the Group's non-current assets were located in the PRC at 30 June 2019 and 31 December 2018.

Information about major customers

The Group had no customer that contributed over 10% of the total turnover of the Group in any of the reporting periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. OTHER INCOME

	Six-month period ended	
	30.6.2019	30.6.2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	**27,036**	27,000
Government subsidies *(Note)*	**6,543**	5,591
Others	**821**	2,532
	34,400	35,123

Note: The amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage business development in the Yixing region, and research and energy reduction activities conducted by the Group, all of which had no specific conditions attached. For the six-month period ended 30 June 2018, included in the amount is approximately RMB463,000 (six-month period ended 30 June 2019: nil), representing deferred income on government subsidies in relation to capital expenditures on property, plant and equipment recognised in the relevant period over the useful lives of the related assets.

5. OTHER GAINS (LOSSES)

	Six-month period ended	
	30.6.2019	30.6.2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Exchange gain (loss)	**14,230**	(5,726)
Gain (loss) on disposal of property, plant and equipment	**81**	(251)
Loss on deregistration of a subsidiary	**–**	(748)
	14,311	(6,725)

6. IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET OF REVERSAL

	Six-month period ended	
	30.6.2019	30.6.2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment losses, net of reversal on:		
Trade receivables	**103,785**	70,104
Other receivables	**723**	17,106
	104,508	87,210

7. PROFIT BEFORE TAXATION

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Profit has been arrived at after charging:		
Interest on bank borrowings	**154,220**	167,741
Interest on lease liabilities	**47**	–
	154,267	167,741
Depreciation of property, plant and equipment	**51,456**	48,430
Depreciation of right-of-use assets	**4,654**	–
Minimum lease payments under operating lease in respect of properties	**2,476***	7,154
Operating lease rentals in respect of land use rights	**–**	3,990

* The amount represents the minimum lease payments on short-term leases.

8. TAXATION

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
The charge comprises:		
Current tax		
PRC income tax	**30,293**	23,704
Hong Kong income tax	**–**	319
	30,293	24,023
Net deferred taxation charge	**1,476**	1,150
Taxation charge for the period	**31,769**	25,173

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law (the "EIT Law") of the PRC on Enterprise Income Tax (the "EIT") and the Regulations of the PRC on the Implementation of the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onwards. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) were endorsed as a High and New Technology Enterprise 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. TAXATION *(continued)*

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

Taxation arising from South Africa is calculated at the rate prevailing in South Africa. The Group did not have assessable profit arising from its subsidiary in South Africa for both periods.

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

9. DIVIDENDS

During the six-month period ended 30 June 2019, no dividend (six-month period ended 30 June 2018: nil) was paid or declared to the owners of the Company.

The Board does not recommend the payment of any interim dividend for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: nil).

10. EARNINGS PER SHARE

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

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to the owners of the Company)	**118,219**	79,970

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. EARNINGS PER SHARE *(continued)*

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Number of shares		
Weighted average number of ordinary shares in issue less shares held under the share award scheme for the purpose of calculation of basic earnings per share	**4,024,876**	4,038,195
Effect of dilutive potential ordinary shares		
Shares granted under the share award scheme	**–**	5,085
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**4,024,876**	4,043,280

The weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share for the six-month period ended 30 June 2018 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.

11. PROPERTY, PLANT AND EQUIPMENT

During the six-month periods ended 30 June 2019 and 2018, the Group incurred the following capital expenditures on property, plant and equipment:

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Plant and machinery	**22,012**	15,565
Furniture, fixtures and equipment	**12,021**	580
Motor vehicles	**2,296**	347
Construction in progress	**5,550**	36,235
Total	**41,879**	52,727

During the six-month period ended 30 June 2019, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB57,000 (six-month period ended 30 June 2018: RMB513,000) for cash proceeds of approximately RMB138,000 (six-month period ended 30 June 2018: RMB262,000), resulting in a gain on disposal of approximately RMB81,000 (six-month period ended 30 June 2018: loss of RMB251,000).

During the six-month period ended 30 June 2019, the Group entered into new lease agreements for the use of buildings for 2 years, under which the Group is required to make fixed monthly payments during the contract period. On commencement of these lease agreements, the Group recognised approximately RMB797,000 of right-of-use assets and approximately RMB797,000 of lease liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 30 June 2019, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB169,990,000 and approximately RMB22,068,000 respectively (31 December 2018: RMB181,261,000 and RMB27,050,000 respectively) to certain banks to secure credit facilities granted to the Group.

12. TRADE AND OTHER RECEIVABLES

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Trade receivables, net	**5,252,751**	5,054,838
Current portion of land use rights	**–**	8,298
Deposits paid to suppliers	**323,961**	82,763
Prepayments	**39,288**	38,135
Staff advances	**10,824**	7,580
Tender deposits	**110,362**	111,922
Value-added tax receivables	**1,740**	4,028
Other receivables	**37,052**	71,649
	5,775,978	5,379,213

Included in the Group's trade receivables at 30 June 2019 were bills receivables of RMB539,241,000 (31 December 2018: RMB639,045,000).

The Group maintains a defined credit policy. The Group normally allows credit terms ranging from 30 days to 180 days to its trade debtors. The ageing analysis of trade receivables, net of allowance for impairment losses of trade receivables based on the invoice date at the end of the reporting periods is as follows:

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Age		
0 to 90 days	**2,059,857**	2,143,445
91 to 180 days	**1,167,401**	930,476
181 to 365 days	**942,190**	910,945
Over 365 days	**1,083,303**	1,069,972
	5,252,751	5,054,838

At 30 June 2019, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of approximately RMB3,025,268,000 (31 December 2018: RMB2,544,875,000), which were past due and which impairment loss had not been provided for since they were of good credit quality and were expected to be recoverable. The Group does not hold any collateral over these balances. Included in the past due balance was RMB3,025,268,000 (31 December 2018: 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND OTHER PAYABLES

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Trade payables	**4,388,679**	4,408,498
Payroll and welfare accruals	**56,365**	109,072
Consideration payables *(Note a)*	**130,698**	130,698
Loans advanced from staff *(Note b)*	**98,932**	75,693
Other tax payables	**11,186**	46,138
Other deposits	**1,826**	2,461
Other payables and accruals	**97,548**	74,070
	4,785,234	4,846,630

Included in the Group's trade payables at 30 June 2019 were bills payables of RMB2,297,530,000 (31 December 2018: RMB2,704,623,000).

Notes:

(a) The amount represents consideration payables by the Group in connection with the acquisition of subsidiaries in prior years.

(b) The amount represents loans advanced from the staff of the Group which were unsecured, non-interest bearing and repayable on demand.

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

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Age		
0 to 90 days	**2,332,985**	1,714,011
91 to 180 days	**1,165,992**	987,920
181 to 365 days	**850,929**	1,473,575
Over 1 year	**38,773**	232,992
	4,388,679	4,408,498

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. BANK BORROWINGS — DUE WITHIN ONE YEAR

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Secured	**611,733**	717,082
Secured and guaranteed by independent third parties	**320,000**	330,000
Unsecured	**1,625,169**	1,167,233
Unsecured and guaranteed by independent third parties	**1,055,000**	1,060,000
	3,611,902	3,274,315
The bank borrowings comprise:		
Variable rate borrowings	**368,823**	481,172
Fixed rate borrowings	**3,243,079**	2,793,143
	3,611,902	3,274,315

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

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
United States dollars	**96,246**	96,085
Hong Kong dollars	**80,467**	80,150
Euro	**–**	157,680

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

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
For bank borrowings:		
— property, plant and equipment	**192,058**	208,311
— land use rights	**–**	295,687
— right-of-use assets	**259,101**	–
For bank borrowings and bills payables:		
— pledged bank deposits	**2,234,697**	2,068,956
	2,685,856	2,572,954

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL

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

	Number of shares	Amount in HK$	Shown in the financial statements as RMB'000
Ordinary shares at HK$0.01 each			
Authorised:			
At 1 January 2018, 31 December 2018 (audited) and 30 June 2019 (unaudited)	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2018, 31 December 2018 (audited) and 30 June 2019 (unaudited)	4,078,866,000	40,788,660	32,951

16. CAPITAL COMMITMENTS

	30.6.2019 RMB'000 (unaudited)	31.12.2018 RMB'000 (audited)
Capital expenditures contracted for but not provided for in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	**8,643**	22,640

17. CONTINGENT LIABILITIES

As at 30 June 2019, neither the Group nor the Company had any significant contingent liabilities.

18. SHARE AWARD SCHEME

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

The share award scheme of the Company was adopted by the Board on 9 September 2015. Pursuant to the share award scheme, existing shares of the Company 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE AWARD SCHEME *(continued)*

On 28 January 2016, the Directors resolved to grant an aggregate of 35,300,000 shares in the capital of the Company (the "Awarded Shares") to certain employees and members of the management of the Group who shall remain employed within the Group (the "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 the Awarded Shares shall vest on each of 1 April 2016, 1 April 2017, 1 April 2018 and 1 April 2019 respectively.

The fair value of the Awarded Shares granted was determined with reference to the market value of the shares on the grant date taking into account the price volatility of the shares of the Company, the risk-free rate and the vesting period as well as the exclusion of the expected dividends, as the employees are not entitled to receive dividends paid during the vesting period. The fair value of the Awarded Shares on the grant date was approximately HK$30,182,000 (approximately RM25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to approximately HK$449,000 (equivalent to approximately RMB394,000) for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: HK$1,289,000 (equivalent to approximately RMB1,082,000)).

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

	Number of shares '000
Outstanding as at 1 January 2018	17,650
Awarded Shares forfeited *(Note a)*	(9,825)
Outstanding as at 31 December 2018 (audited)	7,825
Awarded Shares vested *(Note b)*	(7,800)
Awarded Shares forfeited *(Note b)*	(25)
Outstanding as at 30 June 2019 (unaudited)	–

Notes:

a. 8,825,000 Awarded Shares were forfeited due to non-fulfilment of certain performance conditions. Another 1,000,000 Awarded Shares were forfeited pursuant to the share award scheme due to certain Qualified Employees no longer remained employed with the Group.

b. Based on the fulfilment of certain performance conditions, 7,800,000 Awarded Shares were vested on 1 April 2019 to certain Qualified Employees with 25,000 Awarded Shares being forfeited.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE AWARD SCHEME *(continued)*

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

	Number of shares purchased '000	Cost of purchase HK$'000	Cost of purchase RMB'000
At 1 January 2018	40,671	49,577	41,581
Shares purchased from the market during the year	15,264	5,800	5,121
At 31 December 2018 (audited)	55,935	55,377	46,702
Shares transferred out upon being vested	(7,800)	(7,722)	(6,512)
At 30 June 2019 (unaudited)	48,135	47,655	40,190

19. RELATED PARTIES TRANSACTIONS

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

Compensation of Directors

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

	Six-month period ended	
	30.6.2019 RMB'000 (unaudited)	30.6.2018 RMB'000 (unaudited)
Basic salaries and allowances	**1,003**	1,049
Share-based payments	**101**	277
Retirement benefits scheme contributions	**25**	25
	1,129	1,351

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Long positions in the issued shares of the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest *(Note 1)*
Mr. Chu Hui	Interest of controlled corporations	1,258,838,000 *(Note 2)*	30.86%
	Beneficial owner	168,286,000	4.13%
Ms. Xia Yafang	Beneficial owner	1,112,000	0.03%
	Interest of spouse	1,000,000 *(Note 3)*	0.02%
Mr. Jiang Yongwei	Beneficial owner	1,000,000	0.02%

Notes:

(1) The total number of ordinary shares of the Company in issue as at 30 June 2019 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.

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

(3) These shares represent 1,000,000 shares held by Mr. Han Wei, who is the spouse of Ms. Xia Yafang. Under the SFO, Ms. Xia Yafang is deemed to be interested in all the shares in which Mr. Han Wei is interested.

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

As at 30 June 2019, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

Long positions in the issued shares of the Company

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

Notes:

(1) The total number of ordinary shares of the Company in issue as at 30 June 2019 (i.e. 4,078,866,000 shares) has been used for the calculation of the approximate percentage of interest.

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

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

Save as disclosed above, as at 30 June 2019, the Company has not been notified of any persons who had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

As at 30 June 2019, Mr. Chu Hui was a director of each of Power Heritage, Spectrum HK and 無錫光普投資有限公司. Save as disclosed above, as at 30 June 2019, none of the Directors was a director or an employee of a company which had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

EMPLOYEES AND REMUNERATION

As at 30 June 2019, the Group had a total of 3,338 employees. The total staff costs, net of the remuneration of the Directors, amounted to approximately RMB135.0 million (six-month period ended 30 June 2018: RMB129.2 million) for the period under review. The Group's remuneration policy is based on the position, duties and performance of individual employees. The remuneration of the Group's employees, including their salaries, overtime allowance, bonus and various subsidies, varies according to their positions. The performance appraisal cycle varies according to the positions of the Group's employees. The performance appraisal of the Group's senior management is conducted annually, and that of the department heads is conducted quarterly while that of the Group's remaining staff is conducted monthly. The performance appraisal is supervised by the Group's performance management committee.

The Board adopted a share award scheme on 9 September 2015 as an incentive to recognise the contributions made by the employees, executives, officers and directors of the Group, to retain them for the continuing operation and development of the Group and to attract suitable personnel for further development of the Group. On 28 January 2016, the Board resolved to grant an aggregate of 35,300,000 shares (the "Awarded Shares") in the capital of the Company to 21 selected officers and employees (the "Qualified Employees") of the Group pursuant to the share award scheme, of whom (i) Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei and Mr. Hao Minghui were executive Directors; and (ii) the remaining 17 Qualified Employees were senior management of the Group. 25% of the Awarded Shares (i.e. 8,825,000 Shares) granted to the Qualified Employees were vested on 1 April 2016. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2017, only 500,000 Awarded Shares were vested then. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2018, no Awarded Share was vested then. Out of the final 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2019, only 7,800,000 Awarded Shares were vested then.

PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment decreased from approximately RMB879.1 million as at 31 December 2018 to approximately RMB869.5 million as at 30 June 2019, representing a decrease of approximately 1.1%. This decrease represented the net effect of the addition of machineries for the power cable production lines and the depreciation charged on property, plant and equipment during the period under review.

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

For the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the Company has not had a separate chairman and chief executive officer during the period under review. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired as all major decisions are made in consultation with the Board members and the senior management of the Company. The current arrangement will enable the Company to make and implement decisions promptly and efficiently. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

Save as disclosed above, the Company has complied with all the applicable code provisions of the CG Code during the period under review.

CORPORATE GOVERNANCE AND OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by the Directors on terms not less exacting than the required standards contained in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal in the securities of the Company at any time when they possess inside information in relation to those securities. No incident of non-compliance of the Model Code by any relevant officers or employees during the period under review was noted by the Company.

NON-COMPLIANCE WITH RULES 3.10(1), 3.10(2) AND 3.21 OF THE LISTING RULES

Following the conclusion of the Company's annual general meeting (the "AGM") held on 27 May 2019, Mr. Poon Yick Pang Philip retired as an independent non-executive Director (the "Poon Retirement") and ceased to be the chairman of the audit committee (the "Audit Committee") of the Board and a member of each of the remuneration committee (the "Remuneration Committee") of the Board and the nomination committee (the "Nomination Committee") of the Board with effect from the conclusion of the AGM held on 27 May 2019. Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. Pursuant to Rule 3.10(2) of the Listing Rules, at least one of the independent non-executive directors must have the appropriate professional qualifications or accounting or related financial management expertise. Pursuant to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Following the Poon Retirement and until the appointment (the "Kan Appointment") of Mr. Kan Man Yui Kenneth as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee with effect from 10 June 2019, (i) the Company had only two independent non-executive Directors and two members in each of the Audit Committee, the Remuneration Committee and the Nomination Committee, which fell below the respective minimum number of independent non-executive directors and members of the audit committee requirements under Rules 3.10(1) and 3.21 of the Listing Rules; and (ii) the Board did not have an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, or an Audit Committee member as required under Rule 3.21 of the Listing Rules meeting the same requirements under Rule 3.10(2) of the Listing Rules. The Company complied with Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules following the Kan Appointment.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and has reviewed the unaudited interim financial statements of the Group for the period under review and this report.

During the period from 1 January 2019 to the conclusion of the AGM held on 27 May 2019, the members of the Audit Committee were Mr. Poon Yick Pang Philip (chairman), Mr. He Zhisong and Mr. Yang Rongkai, all being independent non-executive Directors. During the period following the conclusion of the AGM held on 27 May 2019 to 9 June 2019, the members of the Audit Committee were Mr. He Zhisong and Mr. Yang Rongkai, both being independent non-executive Directors. During the period from 10 June 2019 to the date of this report, the members of the Audit Committee were Mr. Kan Man Yui Kenneth (chairman), Mr. He Zhisong and Mr. Yang Rongkai, all being independent non-executive Directors.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a vital mission in the process of globalisation of an enterprise. The Group has been maintaining a high standard of social responsibility since its incorporation. The Group considered "contributing to society with the wealth gained therein and to be a responsible corporate citizen" as a long-term and meaningful mission. In the first half of 2019, the Group focused on the creation of social values while ensuring its profitability in order to contribute to the society and realise the integration and consolidation of the sustainable development of the enterprise and the society.

(1) PROTECTION OF THE INTEREST OF THE STAKEHOLDERS

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

(2) PROTECTION OF THE INTERESTS OF THE STAFF

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

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

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

For occupational health and safety, the Group strictly follows the occupational health and safety management system in its operation. The dangerous elements in the work process are monitored at all times so that the production and operation activities are scientific, systematic and safe throughout the whole process. Various experience activities were organised for the staff during the reporting period. The Group strived to prevent occupational hazards at their early stage, so as to create safe and healthy working and living environments for its staff. During the reporting period, no event affecting the health and safety of the staff had occurred.

(3) ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT

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

To ensure that the Group's carbon emission complies with the required level under ISO 14064-1: 2006, the Group has engaged China Quality Certification Centre to carry out an independent third-party external examination of the Group's greenhouse gas emission every year. The certification issued by China Quality Certification Centre in May 2019 revealed that the Group's wholly-owned subsidiary, Wuxi Jiangnan Cable, has complied with the required level of carbon emission under ISO 14064-1: 2006.

CORPORATE SOCIAL RESPONSIBILITY

(4) PUBLIC RELATION AND SOCIAL WELFARE

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

In the second half of 2019, as a leading industrial enterprise in the PRC, the Group will continue to carry out its economic, social and environmental responsibilities. It will use its best endeavors to fulfil and realise the expectation of all its stakeholders and focus on the creation of social values.