



# 江南集團有限公司

## Jiangnan Group Limited

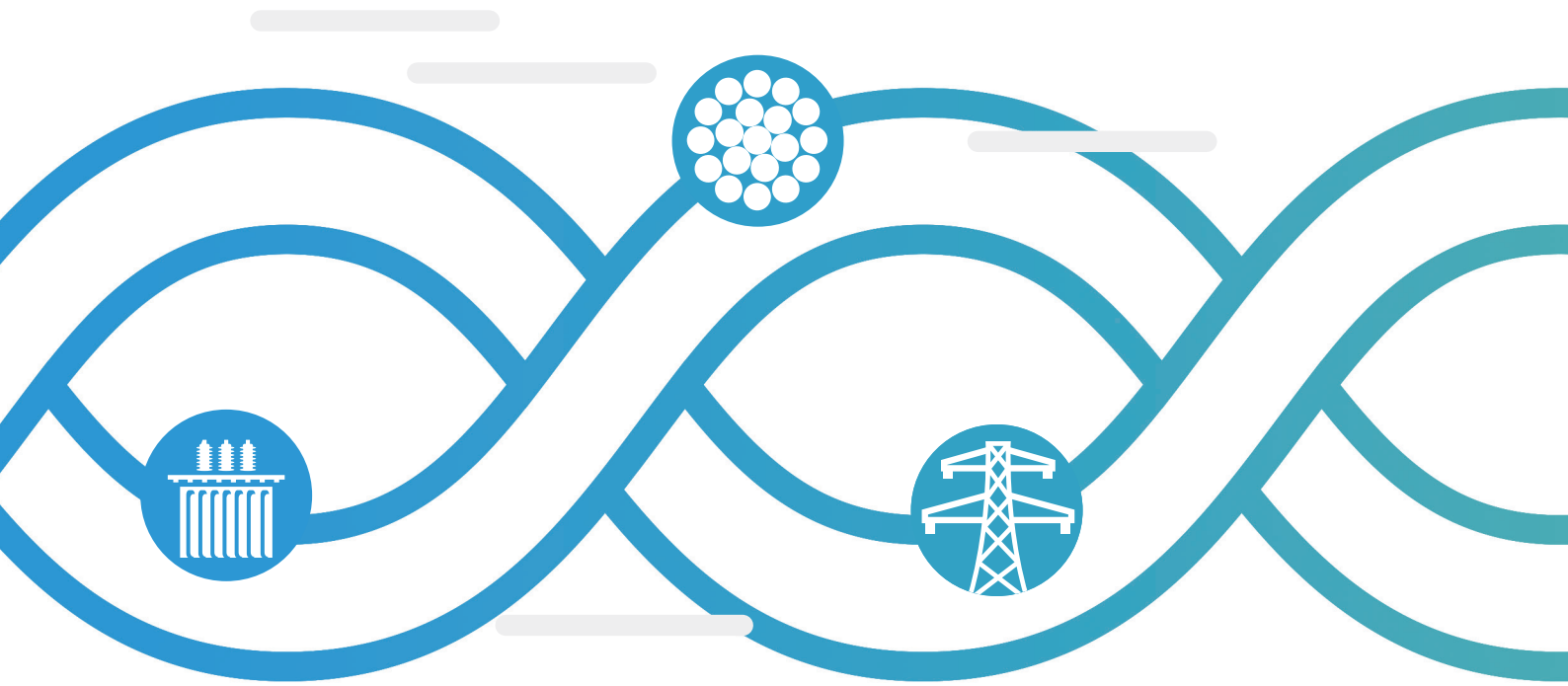
(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 1366

ANNUAL REPORT 2020

One of the Largest Suppliers of

**ELECTRIC WIRES AND CABLES**





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## GROUP'S PHILOSOPHY

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



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## MILESTONES

1997

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

2004

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

2006

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

2008

Obtained **National Laboratory Accreditation Certificate**

2010

Recognised as **China Well-known Trademark by SAIC**  
Commenced production of **high voltage cables** with rated voltage of 110kV

2000

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

2005

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

2007

Accredited as **State Key High Technology Enterprise**

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

2009

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

2011

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



## MILESTONES

2012

Listed on the Main Board of the HKEX

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

Established production lines in South Africa

2014

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

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

2016

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

Awarded as one of the Top 500 Manufacturing Enterprises in China

2018

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

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

2020

13 **Special Cables** passed scientific and **technological achievement** appraisal

2013

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

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

2015

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

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

2017

Awarded "**AEO Customs Advanced Certification**"

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

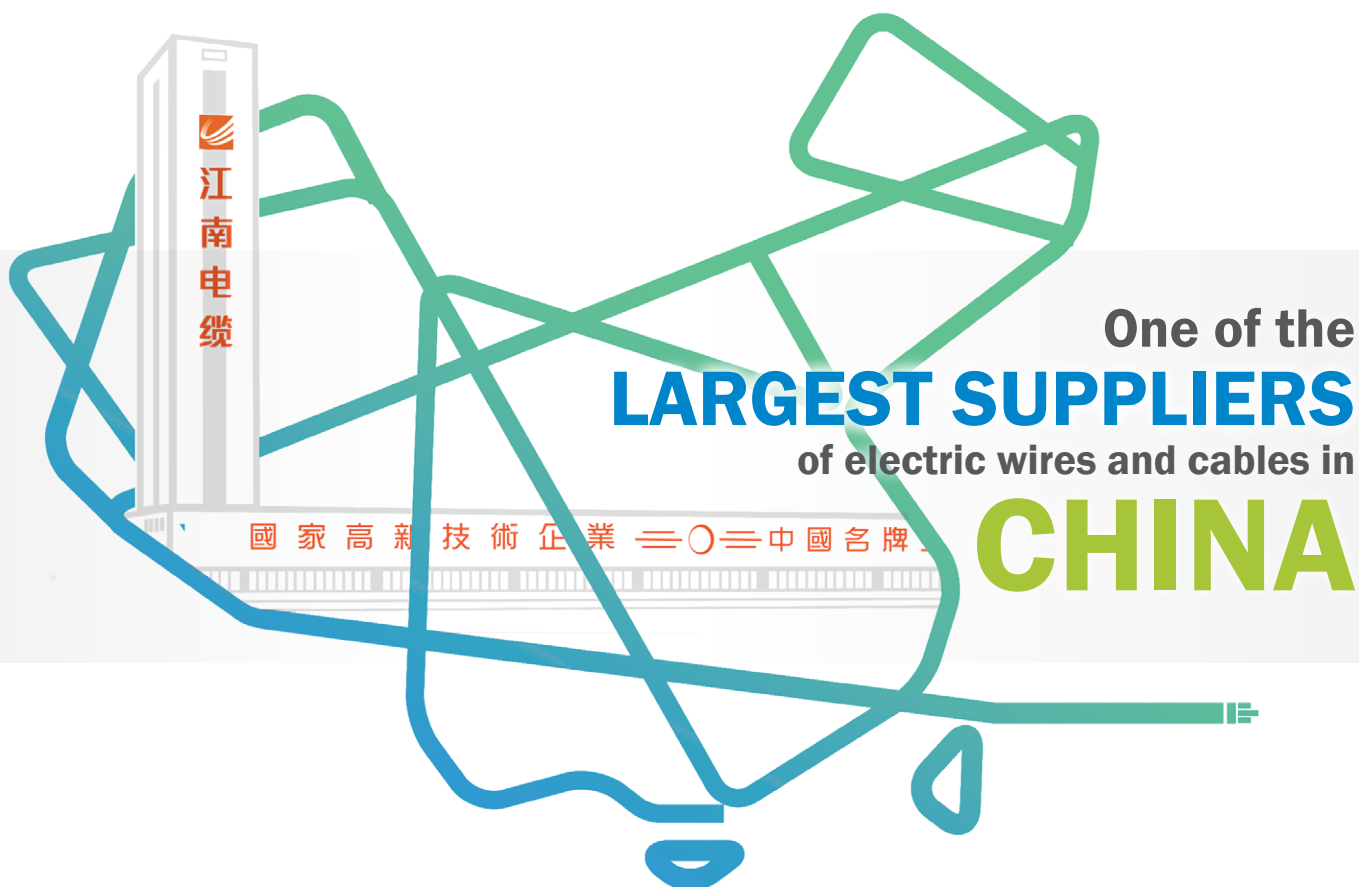
Acquired 120,000 square metres of factory land

2019

Achieved **ISO 19642 & T/CAS356-2019** standards for **high-voltage cables used for new energy vehicles**

Awarded as one of the **Top 500 Chinese Manufacturing Enterprises**

## CORPORATE PROFILE

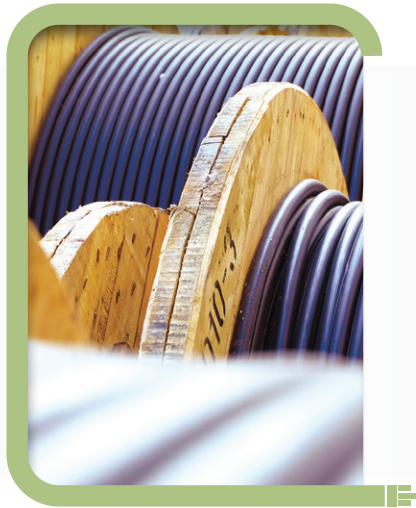


**JIANGNAN GROUP LIMITED (“JIANGNAN GROUP” OR “COMPANY”, TOGETHER WITH ITS SUBSIDIARIES, “GROUP”) IS ONE OF THE LARGEST MANUFACTURERS OF WIRES AND CABLES FOR POWER TRANSMISSION, DISTRIBUTION SYSTEMS AND ELECTRICAL EQUIPMENT IN THE PEOPLE’S REPUBLIC OF CHINA (“CHINA” OR “THE PRC”). THE GROUP’S PRODUCTS ARE WIDELY USED IN THE POWER INDUSTRY (INCLUDING GRID, POWER PLANT AND RENEWABLE ENERGY) AND GENERAL INDUSTRIES (INCLUDING METALS AND MINING, OIL AND GAS, TRANSPORTATION, SHIPBUILDING AND CONSTRUCTION).**

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

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

## CORPORATE PROFILE



In 2017, the Group obtained “AEO Customs Advanced Certification”\* (海關高級認證 AEO) from the Nanjing Customs Department of the PRC (中華人民共和國南京海關).

In 2018, a subsidiary of the Company was also awarded the titles of “Standardisation of Electrical Industry — Model Enterprise of Good Practice”\* (電器工業標準化良好行為示範企業), “National Customer Satisfaction Enterprise”\* (全國用戶滿意企業), “Top 50 Original Industrial Brand Names in Jiangsu Province”\* (江蘇省自主工業品牌五十強) and “Model Smart Workshop in Jiangsu Province”\* (江蘇省示範智能車間). This subsidiary of the Company was also the only enterprise in Yixing being awarded the title of “Model Platform for Entrepreneurship and Innovation in the Manufacturing Sector of Jiangsu Province”\* (江蘇省製造業「雙創」示範平台).

In 2019 and 2020, this subsidiary of the Company continued to be ranked as one of the top 500 Chinese Manufacturing Enterprises\* (中國製造企業500強), one of the top 500 Chinese Private Enterprises\* (中國民營企業500強) and one of the top 10 Most Competitive Cable Industry Players in China\* (中國纜纜行業最具競爭力10強). Moreover, this subsidiary of the Company was awarded the title of “International Famous Brands for Prioritised Cultivation and Development in Jiangsu Province”\* (江蘇省重點培育和發展的國際知名品牌) in 2020.

\* For identification purpose only

The Group has strong research and development capabilities. The Group has established a research workstation and a state post-doctoral research workstation jointly with the academicians of the China Academy of Engineering and China Academy of Science. The Group has also participated in the drafting and formulating of 59 national industry standards for the manufacturing processes of power cables, wires and cables for electrical equipment and bare wires. One of these standards was the standard for the rated voltage 0.6/1 kilovolt (“kV”) rubber insulation and sheathing wind power with twist-resistant flexible cables. This was the first standard for wind power cables in China. The Group has 446 patents that are material to the Group’s business in the PRC. Two of the most significant subsidiaries of Jiangnan Group in China, namely, Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) (“Wuxi Jiangnan Cable”) and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) (“Zhongmei Cable”), have been endorsed as High and New Technology Enterprises again by the Yixing Provincial Commission of Science and Technology and are entitled to a reduced PRC income tax rate of 15% until the next renewal of their endorsements in 2021 and 2023 respectively. The Group’s high-tech products include extra-high voltage (“EHV”) cables, ultra-high voltage (“UHV”) aluminum alloy bare wires, photovoltaic solar cables, cables used for wind power, optical fiber composite cables, aluminum-alloy cables, pulse width modulated inverter power supply cables for ships, flexible fire resistant cables, 27.5kV power cables for high-speed railways and high-voltage cables for new energy vehicles.



## CORPORATE PROFILE

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

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

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

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

Xia Yafang (*Executive Vice-president*)

Jiang Yongwei (*Vice-president*)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Yang Rongkai

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

### AUTHORISED REPRESENTATIVES

Chan Man Kiu

Xia Yafang

### COMPANY SECRETARY

Chan Man Kiu, *CPA, FCCA*

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### REGISTERED OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 23/F, Metropole Square, No. 2 On Yiu Street  
Shatin, New Territories, Hong Kong

### PRINCIPAL PLACE OF BUSINESS IN CHINA

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

### INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Registered Public Interest Entity Auditors

### LEGAL ADVISORS

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

### STOCK CODE

1366

### WEBSITE

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

### CORPORATE CALENDAR

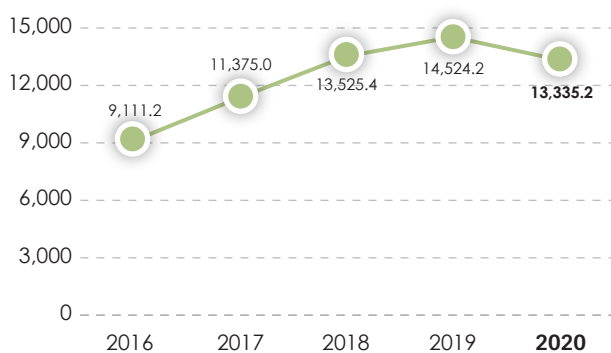
Annual General Meeting                      20 May 2021

# FINANCIAL HIGHLIGHTS

	Year ended 31 December				
	2016	2017	2018	2019	2020
<b>RESULTS (RMB'000)</b>					
Group turnover	9,111,232	11,374,969	13,525,377	14,524,221	<b>13,335,190</b>
Profit for the year	529,874	103,912	182,421	383,223	<b>169,495</b>
<b>ASSETS AND LIABILITIES (RMB'000)</b>					
Non-current assets	1,261,060	1,373,765	1,315,042	1,287,191	<b>1,324,254</b>
Current assets	11,204,561	12,060,102	13,248,862	14,292,289	<b>14,447,590</b>
Current liabilities	7,096,600	8,072,819	9,069,052	9,223,459	<b>9,072,928</b>
Non-current liabilities	71,929	70,041	70,427	47,821	<b>259,683</b>
<b>FINANCIAL RATIOS</b>					
Net margin	5.8%	0.9%	1.3%	2.6%	<b>1.3%</b>
Current ratio	1.58	1.49	1.46	1.55	<b>1.59</b>
<b>FINANCIAL INFORMATION PER SHARE</b>					
Earnings (HK cents)	15.2	3.07	5.14	9.67	<b>3.31</b>
Net assets (HK\$)	1.51	1.57	1.53	1.59	<b>1.26</b>

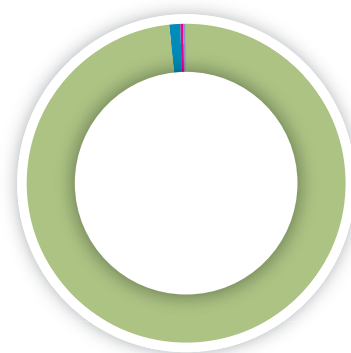
## TOTAL REVENUE

(RMB million)

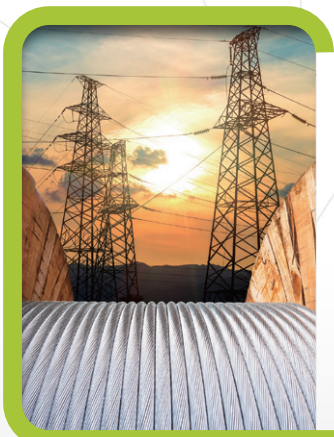


## GEOGRAPHICAL COMBINATION

- Singapore 1.1%
- Africa 0.1%
- Others 0.1%
- Mainland China 98.7%







# TECHNOLOGICAL **INNOVATION**

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

## CHAIRMAN'S STATEMENT

### Dear shareholders,

I am pleased to present the annual results of Jiangnan Group for the year ended 31 December 2020 to our shareholders.

### BUSINESS ENVIRONMENT

Despite a grim and complicating domestic and international environment, especially unprecedented outbreak of the Coronavirus Disease 2019 ("COVID-19") in 2020, China's gross domestic product ("GDP") grew by 2.3% over that in 2019 to RMB101.6 trillion, but its growth rate decreased by 3.8 percentage points from 6.1% in 2019, according to the National Bureau of Statistics of China. In December 2020, China's manufacturing purchasing manager index ("PMI") was 51.9%, which remained above the critical point for ten consecutive months. It indicated a steady recovery in the manufacturing industry in China. The demand for cables has also stabilised as the cable industry in China is closely related to the economic conditions of China.

In terms of electricity consumption, according to the statistics of the Industry Development and Environmental Resources Division of the China Electricity Council, a joint organisation set up by power enterprises and institutions in China under the approval of the State Council, the total electricity consumption of the entire nation was 7,511 billion kilowatt-hours in 2020, representing an increase of 3.1% over that in 2019. In respect of the supply and transmission of electricity, the national installed power generation capacity was 2.20 billion kilowatts as at the end of 2020, representing a year-on-year increase of 9.5%. From January to November 2020, the national infrastructure production capacity was 102.03 million kilowatts, representing an increase of 25.97 million kilowatts as compared to that for the same period in last year. An investment of RMB415.7 billion was made for national power projects, representing a year-on-year increase of 43.5%, mainly attributable to investment in hydropower and wind power projects. The investments in power grid infrastructure in 2020 made by the State Grid Corporation of China ("SGCC") exceeded 0.3% over its annual target. As a result, the Group's sales during the year under review in the energy sector remained stable.

According to the National Bureau of Statistics of China, national infrastructure investments (excluding the production and supply of electricity, heat, gas and water) were increased by 0.9% in 2020 as compared with that in 2019, which was mainly due to the 1.8% increase in investments in the road transportation industry and a decrease in investments in the railway transportation industry by 2.2% and public utility management industry by 1.4% respectively. The limited increase in the national infrastructure investments has provided a stable demand for both general and special power cables.

With regard to the property sector, it is pointed out in the 2020 Central Economic Working Conference that China should maintain the continuity, consistency and stability of real estate financial policies and insist on implementing "housing for living, not for speculation" policy. Though regulation remained stringent in real estate finance, global quantitative easing measures and China's moderate easing of its fiscal policy still left some liquidity for the market growth. According to the National Bureau of Statistics of China, in 2020, the floor space of commodity housing sold in China increased by 2.6% compared with that in 2019 to approximately 1,760 million square metres and the sales increased by 8.7% compared with that in 2019 to approximately RMB17.4 trillion. Investments in real estate development in China reached approximately RMB14.1 trillion in 2020, representing an increase of 7.0% which is 2.9 percentage points lower than that in the year of 2019. In 2020, the floor space of housing under development decreased by 1.2% as compared with that in 2019 to approximately 2.24 billion square metres, and the floor space of housing completed decreased by 4.9% to approximately 910 million square metres. At the end of 2020, the floor space of housing under construction by developers reached approximately 9.27 billion square metres, representing an increase of 3.7% as compared with that in 2019. The land areas purchased by real estate developers in 2020 amounted to 260 million square metres, representing a decrease of 1.1% as compared with that in 2019. Due to the slow recovery of receivables from real estate enterprises in general, the Group adopted a more conservative approach to sell its products to real estate enterprises, curbing the growth of the Group's sales in this sector.

## CHAIRMAN'S STATEMENT

In 2020, copper price in London Metal Exchange (“LME”) had experienced a V-shaped rebound. In the first quarter, the outbreak of the COVID-19 triggered a global blockade and had a tremendous impact on the overall global economy. Due to the epidemic outbreak in the USA in mid-March coupled with the US dollar liquidity risk caused by the collapse in financial markets, the LME copper price fell sharply to a four-year low of around US\$4,500 per tonne. In the second quarter, on the one hand, monetary and fiscal stimulus policies introduced by major economies against the pandemic led to a significant improvement of market liquidity. Gradual recovery of global economy and a rebound in the macro demand for copper came after. On the other hand, production activities in major copper-producing countries were constantly disturbed by the epidemic, which triggered market concerns about copper supply. Strong demand led to a sharp rebound of the LME copper price of more than 30% from the lower end to approximately US\$6,000 per tonne. From the third quarter onwards, the global economy continued to recover but the epidemic came back overseas. The major global events such as the US election and COVID-19 vaccine development also intensified bilateral fluctuations of the LME copper price with an upward trend overall. The LME copper price hit a two-year high of approximately US\$7,583 as of 31 December 2020. The average price of copper on the LME in 2020 was US\$6,169 per tonne, which was only 2.7% higher than that in 2019. The average price of aluminium on the LME in 2020 was US\$1,387 per tonne, which was 5.0% higher than that in 2019. As the Group prices its products on a cost-plus basis and copper as a raw material of its major products, the rise in copper prices has pushed up the prices of the Group's products, which offset the decline in revenue of the Group caused by the COVID-19 for the year under review.

### BUSINESS REVIEW

Despite the overall economic downturn in China and the wider world in 2020 due to the pandemic, numerous competitors with identical features in most of the products and fierce competition in the market, the Group, with its more than 30 years of experience in the industry and its self-innovation capabilities, recorded a turnover of approximately RMB13,335.2 million, representing a decrease of approximately 8.2% as compared with that in 2019.

In 2020, the Group's business in overseas markets was significantly affected by the global spread of the pandemic and the worsening of foreign trade conditions. From January to February 2020, the Group's merchandise exports were greatly limited due to the Spring Festival and the COVID-19. Although the epidemic was basically under control in China and the Group was among the first in China to promote work and production resumption, its exports were still hit by the ensuing global epidemic outbreak. The Group and its long-term strategic customers also suffered a decline in business. The Group's direct sales to overseas markets in 2020 recorded a decline of approximately 55.8% as compared to that in 2019.

In recent years, the Group's annual equipment investments exceeded RMB50 million on average to expand its production capability. In 2020, the Group increased its investment in technological transformation and imported a world-class production equipment such as double-head 11-mold large-draw machines, a continuous vulcanization extrusion equipment, double-twisted stranding machines, and a resistance-type continuous annealing equipment. Meanwhile, the Group purchased domestic state-of-art production and test equipments such as cable sheathing production lines, cage twisters, production lines for the longitudinal wrapping and welding of BTTZ copper strips and systems used to test fire resistant properties of cables. All the investments have shorten the delivery period of the Group and increased its customers' satisfaction.



## CHAIRMAN'S STATEMENT

In 2020, the Group continued on the list of the top 500 Chinese Manufacturing Enterprises\* (中國製造業企業500強), the top 500 Chinese Private Enterprises\* (中國民營企業500強), the top 500 Chinese Private Manufacturing Enterprises\* (“中國製造業民營企業500強”), and the top 10 Most Competitive Cable Industry Players in China\* (中國纜纜行業最具競爭力企業10強). The Group also won a number of awards such as “International Famous Brands for Prioritised Cultivation and Development in Jiangsu Province”\* (江蘇省重點培育和發展的國際知名品牌), “Demonstration Base for Ex-servicemen’s Employment and Start-up in Wuxi City”\* (無錫市退役軍人就業創業示範基地), “Vocational Skill Training Institution for Ex-servicemen in Wuxi City”\* (無錫市退役軍人職業技能培訓承訓機構), “Key Tax Contributor in Yixing City for 2020”\* (2020年度宜興市對上貢獻重點企業), “High-Quality Development and Demonstration Enterprise in Yixing City”\* (宜興市高質量發展示範企業), “Model Enterprise with High Integrity in Yixing City”\* (宜興市守信標兵企業), “Smart Model Manufacturer in Yixing City”\* (宜興市智能製造示範企業), and “Yixing City Demonstrative Enterprise for Scientific and Technological Advancement”\* (宜興市科技進步示範企業).

In recent years, amid the keen market competition, the Group aiming at domestic and overseas high-end markets has managed to expedite the development and innovation of new products, processes, and technologies by means of academician research workstations and postdoctoral research workstations. In 2020, the Group made remarkable achievements in research and development of rail transit cables, mining cables, marine cables, energy-saving wires, fire-resistant cables, military cables and other products. Major breakthroughs were made in research and development of military nuclear products, with 13 new products passing scientific and technological achievement appraisal and 2 products listed in the “New Technology and New Product Catalogue of Jiangsu Province for Prioritised Promotion and Application”\* (江蘇省重點推廣應用的新技術新產品目錄) throughout the year. The Group’s subway cables were listed among the first batch of “Quality Products of Jiangsu”\* (江蘇精品), and power cables were certified as China’s “Enterprise Standard Leader”\* (企業標準領跑者) as we led the preparation of two group standards and participated in the development of five national and industry standards.

### OUTLOOK AND PROSPECTS

In 2021, the Group will continue to be exposed to great financial pressures and challenges due to the global and domestic macroeconomic conditions. There are many uncertainties in the changes of the COVID-19 epidemic and the internal and external environment. Given China’s not yet solid economic foundation and the world’s complex and difficult economic situations amid an unstable and uneven recovery, various risks associated with the epidemic cannot be ignored. As China’s relationship with the United States and some other countries has been shifted from cooperating rivals to competing rivals, it is expected that their efforts to restrict and stifle China’s development will continue for a long time. The Chinese government’s policy of “housing for living, not for speculation”, control over state grid investment and production restriction and restructuring for the coal industry also have a certain impact on the existing market. The epidemic is still severe overseas. As at the date of this report, the cumulative number of confirmed cases of the COVID-19 worldwide had exceeded 100 million. Mutations in the COVID-19 virus may cause another surge in global cases and accelerate the spread of the epidemic, which will inevitably pose serious challenges to the global economy and affect the Group’s business in overseas markets.

\* For identification purposes only

## CHAIRMAN'S STATEMENT

Despite all these, the foundation of the Chinese economy remains strong with a large and fast-growing market of great potential. Great opportunities come with the government's strategy of expanding domestic demand, important initiative to ensure "stability on the six fronts and security in the six areas"\* (六穩六保) (referring to stability in employment, finance, foreign trade, foreign investment, domestic investment, and market expectations and security in safeguarding employment, people's livelihoods, the development of market entities, food and energy security, the stable operation of industrial and supply chains, and the smooth functioning of society), new infrastructure construction as well as the implementation of the "One Belt One Road"\* (一帶一路) initiative, the integration of the Yangtze River Delta and Pearl River Delta development and the construction of Xiong'an New Area and free trade zones. All these measures will create opportunities for the development of the Group in 2021 especially in the following aspects:

- 1 In 2021, China will accelerate the integration of Beijing-Tianjin-Hebei transportation and the construction of the comprehensive transportation system in the Xiong'an New Area, the construction of the comprehensive three-dimensional transportation corridor in the Yangtze River Economic Belt, the development of transportation in the Guangdong-Hong Kong-Macao Greater Bay Area, the high-quality integrated development of transportation in the Yangtze River Delta, the ecological protection and high-quality development of transportation in the Yellow River Basin and the development of transportation in a two-city economic circle in the Chengdu-Chongqing region. Around RMB2.4 trillion is expected to be invested in fixed assets in transportation throughout the year.
- 2 Mao Weiming, Chairman and Party Secretary of State Grid Corporation of China, said in an interview with Xinwen Lianbo, a daily news programme produced by China Central Television (CCTV), that SGCC would continue to strengthen the construction of power grids to develop a modern power grid that is safe, reliable, green, smart, interconnected and with mutual benefits. The investment in power grids and related industries is expected to reach RMB6 trillion during the "14th Five-Year Plan" period.
- 3 In 2021, "new infrastructures" (which are principally focused in seven major sectors including 5G networks, ultra-high voltage, inter-city express railway and inner-city rail systems, charging poles for new energy automobiles, big data centres, artificial intelligence as well as industrial internet) will continue to be the driving force for economic growth. In terms of data centres, the total investment during 2020 to 2022 will amount to approximately RMB1.5 trillion. In terms of investment in industrial internet, the cumulative investment during 2020 to 2025 will reach around RMB650 billion. With respect to 5G networks, the cumulative investment from 2019 to 2026 will exceed RMB2.6 trillion. In the next three years, the investment in artificial intelligence will exceed RMB100 billion.

As the market is full of opportunities, the Group will squeeze the opportunities for its development by improving its marketing quality, management, and service capabilities. The Group will focus on the following areas in its business operations in 2021:

1. the Group will adhere to focusing on marketing by sales personnel with the aid of internal sales channels, continue to update marketing strategy and concepts, and proactively integrate into the dual-cycle development strategy of marketing. The Group will explore deeper into existing mature markets with emphasis on key areas and core customer markets in order to develop the high-quality sales development by the way of targeting at high-end markets.

\* For identification purposes only

## CHAIRMAN'S STATEMENT

2. the Group will further intensify its efforts to tap into new markets. The Group will expand its customer's base in second-tier and third-tier cities in China with urgent, high demand and great influence and pay attention to the development of remote markets. The Group will put an extra effort to develop international markets by exposure to the "One Belt One Road"\* (一帶一路) initiative and participating in the supply of supporting facilities overseas. It will take the initiative to attend international exhibitions, where possible, to enhance its international exposure and reputation.
3. the Group will strive for excellence. It will effectively assess the overall quality of projects, fight against counterfeiting and faking of its brand products, strengthen efforts to collect loans in arrears in a faster way, do its best to avoid operating risks, and improve efficiency and quality.
4. the Group will intensify its efforts to train marketing managers and management team building, nurture talented employees, keep exploring new service models to customers, improve service standards to shorten response time and improve service quality.
5. the Group will computerize the operations and knowledge management of the Group holistically and promote safe production and green manufacturing to a new higher level. In 2021, the Group plans to install four more imported cross-linked cable production lines including two production lines for 35kV ultra-high-speed medium-voltage cross-linked cables, one production line for 110kV PP cables and one production line for 110kV cross-linked cables and import two German concentric stranding machines.

### ACKNOWLEDGEMENT

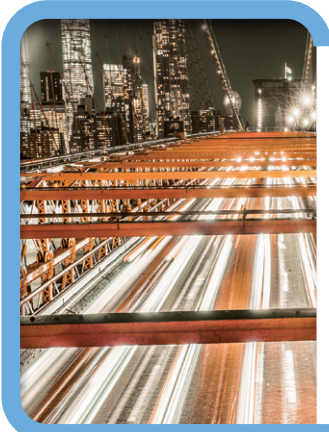
On behalf of the board ("Board") of directors ("Directors") of the Company, I would like to express my heartfelt gratitude to the shareholders and investors of the Company, business partners, customers and suppliers of the Group for their long-lasting support and to all Board members, the Group's management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

#### **Chu Hui**

*Chairman and Chief Executive Officer*

Hong Kong, 24 March 2021

\* For identification purposes only



MAXIMISE  
**EFFICIENCY**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERALL PERFORMANCE

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB13,335.2 million, representing a decrease of approximately 8.2% as compared with that for the year ended 31 December 2019, and profit for the year under review of approximately RMB169.5 million, representing a decrease of approximately 55.8% as compared with that for the year ended 31 December 2019. The decrease in the profit for the year under review was mainly due to (i) the decrease in turnover by approximately 8.2% to approximately RMB13,335.2 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB14,524.2 million due to the reduced demand for the Group's products during the year under review, as a result of the adverse economic impacts of the COVID-19 pandemic; (ii) the increase in selling and distribution costs by approximately 30.4% to approximately RMB560.1 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB429.6 million, which is mainly due to (a) the increase in the costs incurred in providing better technical support and after-sale services to the Group's customers; and (b) the increase in the costs incurred in bidding projects for the Group; (iii) the increase in administrative expenses by approximately 6.6% to approximately RMB283.0 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB265.5 million, which is mainly due to the increase in the staff costs and general expenses incurred by the Group for the enhancement of its business and employee health management; and (iv) the turning of an exchange gain for the year ended 31 December 2019 of approximately RMB9.3 million to an exchange loss of approximately RMB16.6 million for the year under review, all partially offset by (1) the increase in other income by approximately 8.6% to approximately RMB103.5 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB95.2 million primarily attributable to the combined effect of the recovery of a bad debt which has been written off last year and the decrease in the interest income earned on bank deposits, as a result of the decline in the average balance of the bank deposits placed by the Group during the year under review; (2) the reduction in share of losses from associates by 97.4% to approximately RMB273,000 for the year under review, which amounted to approximately RMB10.6 million for the year ended 31 December 2019; (3) the reduction in impairment losses under the expected credit loss ("ECL") model, net of reversal by approximately 8.8% to approximately RMB93.0 million for the year under review, which amounted to approximately RMB102.0 million for the year ended 31 December 2019, mainly due to the amounts and the aging of the Group's trade and other receivables over one year remaining stable during the year under review; (4) the reduction in finance costs by approximately 7.1% to approximately RMB271.9 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB292.8 million, mainly attributable to the Group requiring less financing to fund its working capital in the year under review due to the reduction in the demand for its products; and (5) the decrease in taxation by approximately 35.5% to approximately RMB49.4 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB76.7 million, as a result of the reduction in the Group's taxable profit for the year under review. The Group's gross profit margin for the year under review increased to approximately 10.7% (year ended 31 December 2019: 10.5%). Basic earnings per share for the year under review was RMB2.79 cents (year ended 31 December 2019: RMB8.66 cents), representing a decrease of approximately 67.8%.

### MARKET REVIEW

In 2020, the national economy in China faced a downward pressure. According to the National Bureau of Statistics of China, China's gross domestic product grew by 2.3% over that in 2019 to RMB101.6 trillion but its growth decreased by 3.8 percentage points from 6.1% in 2019 due to the outbreak of the COVID-19 in 2020 which caused significant adverse impacts on the global economy. China's manufacturing PMI had been above 50% for ten consecutive months up to December 2020, indicating that the manufacturing industry continues to recover steadily in the PRC. As the power cable industry in the PRC is closely correlated to China's economic environment, the demand of power cable products has been stabilised.

The average price of copper on the LME increased by approximately 2.7% from approximately US\$6,006.1 per tonne in 2019 to approximately US\$6,168.6 per tonne in 2020. The average price of aluminium increased by approximately 5.0% from approximately US\$1,320.5 per tonne in 2019 to approximately US\$1,386.6 per tonne in 2020. As the Group prices its products on a cost-plus basis, the increase in average raw materials prices has driven up the Group's average product prices generally, which partially alleviated the drop in turnover of the Group caused by the decrease in the sales volume of the Group during the year under review.



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2020, the Group recorded a turnover of approximately RMB13,335.2 million, representing a decrease of approximately 8.2% as compared with that in 2019. In order to maintain the Group's competitiveness and enhance the Group's productivity, the Group has continued to invest more than RMB50 million every year in machineries for upgrading current production lines and setting up new ones. In recent years, the Group continues to invest to increase its production capacities. To cope with the fierce market competition, in recent years the Group has been aiming at high-end market domestically and overseas, and has been deploying resources to accelerate research and development of new and innovative products, processes and technologies. In 2020, the Group has made remarkable achievements in the research and development of rail transit cables, mining cables, marine cables, energy-saving wires, fire-resistant cables, military cables and other products. Among them, the research and development of military nuclear products has made substantial breakthroughs. In 2020, 13 new products of the Group passed the appraisal of scientific and technological achievements, 2 products were listed in the "New Technology and New Product Catalog for Key Promotion and Application in Jiangsu Province" (江蘇省重點推廣應用的新技術新產品目錄), the Group's subway cable product was awarded the first batch of "Quality Products of Jiangsu" (江蘇精品) titles, and the power cable of the Group was certified as the national "Enterprise Standard Leader" (企業標準領跑者). The Group also led the formulation of 2 group standards and participated in the formulation of 5 national and industry standards.

In respect of the Group's overseas business, the spread of the COVID-19 around the world and the deterioration of trading environment had an adverse impact on the Group's overseas market business for the year under review. Although the domestic epidemic was basically under control and the Group was one of the first batch enterprises in the resumption of production and work, the global epidemic broke out seriously affected the Group's products export. Sales to the Group's long-term strategic customers has been affected resulting in the overseas turnover of the Group decreased by approximately 52.3% to approximately RMB168.9 million for the year under review (year ended 31 December 2019: RMB354.6 million).

### The impact of the COVID-19 on the Group

The COVID-19 pandemic has brought about additional uncertainties in the Group's operating environment in China. The Group's turnover decreased by approximately 8.2% as compared to that in 2019 due to the reduced demand for the Group's products during the year under review, as a result of the adverse economic impacts of the COVID-19 pandemic. This change in customers' demands affected the Group's businesses the most especially in the first quarter of 2020 when most of its customers' operations were suspended due to the implementation of various preventive and emergency measures in the PRC, such as a partial lockdown policy and extension of the Chinese New Year holidays for the sake of minimising the population movement preventing the threat of spreading the epidemic across the PRC. The Group's turnover in the first quarter of 2020 only accounted for approximately 9.4% of the total turnover for the year under review. To avoid the continuing suspension of operations due to the outbreak of COVID-19 in China in early 2020, the Group had put in place various contingency measures including employee health management procedures which were in compliance with the Chinese government's guidelines. The Group was able to resume its operations within a short period after Chinese New Year holidays in 2020. The reduction in demand for the Group's products lowered the Group's working capital needs. To cope with any unexpected change in demands for the Group's products which might need additional working capital, the Group always maintains sufficient credit facilities with banks to ensure the Group's strong liquidity position. Given that the Chinese government has implemented straightforward and effective measures and policies to monitor and control the COVID-19 pandemic, and with the launch of COVID-19 vaccination in 2020, the Group expects that the impact of the COVID-19 pandemic on the Group's operations will be reduced in the coming year. Nevertheless, the Group will continue to monitor the situation of the epidemic and assess its impact on the Group from time to time.

## MANAGEMENT DISCUSSION AND ANALYSIS

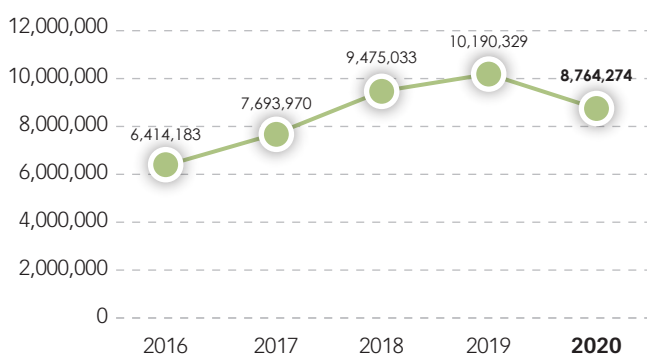
### TURNOVER AND GROSS PROFIT MARGIN OF THE PRODUCTS

	Turnover			Gross Profit Margin		
	2020 RMB'000	2019 RMB'000	% change	2020	2019	% change
Power cables	<b>8,764,274</b>	10,190,329	-14.0%	<b>10.7%</b>	10.3%	0.4%
Wires and cables for electrical equipment	<b>2,944,958</b>	2,804,546	5.0%	<b>6.1%</b>	6.5%	-0.4%
Bare wires	<b>395,422</b>	505,282	-21.7%	<b>11.2%</b>	12.6%	-1.4%
Special cables	<b>1,230,536</b>	1,024,064	20.2%	<b>21.2%</b>	21.6%	-0.4%
<b>TOTAL</b>	<b>13,335,190</b>	14,524,221	-8.2%	<b>10.7%</b>	10.5%	0.2%

### TURNOVER

#### POWER CABLE PRODUCTS — 65.7% OF TOTAL TURNOVER

(RMB'000)

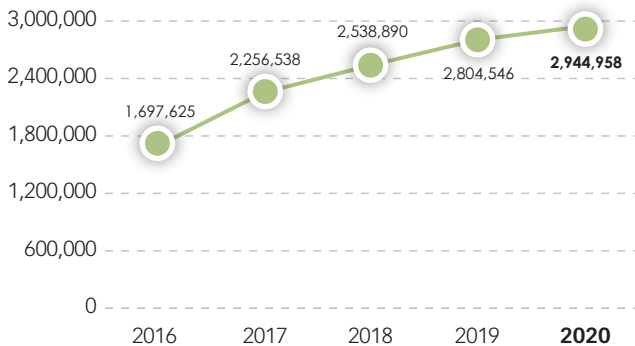


For the year under review, the turnover of power cables which accounted for approximately 65.7% of the total turnover of the Group amounted to approximately RMB8,764.3 million, representing a decrease of approximately 14.0% over that in 2019 of approximately RMB10,190.3 million. The sales volume of the Group's power cable products for the year under review decreased by approximately 16.8% to approximately 198,131 km (year ended 31 December 2019: 238,199 km), which was mainly attributed to the outbreak of the COVID-19 in China, which had reduced customers' consumption of the Group's products during the year under review. The increase in the average copper price during the year under review had driven up the average selling price of power cable products for the year under review by approximately 3.4% to approximately RMB44,235 per km (year ended 31 December 2019: RMB42,781 per km).

Gross profit of power cable products for the year under review decreased to approximately RMB940.5 million (year ended 31 December 2019: RMB1,051.3 million), whereas gross profit margin increased slightly to approximately 10.7% (year ended 31 December 2019: 10.3%) mainly due to change in product mix that the sales proportion of higher profit margin products increased during the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### WIRES AND CABLES FOR ELECTRICAL EQUIPMENT PRODUCTS — 22.1% OF TOTAL TURNOVER (RMB'000)



For the year under review, the turnover from wires and cables for electrical equipment increased by approximately 5.0% to approximately RMB2,945.0 million (year ended 31 December 2019: RMB2,804.5 million). The sales volume of wires and cables for electrical equipment increased by approximately 9.8% from approximately 1,442,789 km for the year ended 31 December 2019 to approximately 1,584,145 km for the year under review. However, the average selling price of wires and cables for electrical equipment products decreased by approximately 4.4% from approximately RMB1,944 per km for the year ended 31 December 2019 to approximately RMB1,859 per km for the year under review, mainly due to the increase in sales of wires and cables for electrical equipment products with lower selling prices in 2020. Gross profit for the year under review decreased to approximately RMB179.6 million (year ended 31 December 2019: RMB182.9 million) and gross profit margin decreased to approximately 6.1% (year ended 31 December 2019: 6.5%), mainly due to the fierce market competition of wires and cables for electrical equipment products.

### BARE WIRE PRODUCTS — 3.0% OF TOTAL TURNOVER (RMB'000)



For the year under review, the turnover of bare wires decreased by approximately 21.7% during the year under review to approximately RMB395.4 million (year ended 31 December 2019: RMB505.3 million). The sales volume of bare wires decreased significantly by approximately 25.7% to approximately 28,029 tonnes for the year under review (year ended 31 December 2019: 37,726 tonnes). The average price of bare wire products increased by approximately 5.3% to approximately RMB14,108 per tonne for the year under review (year ended 31 December 2019: RMB13,394 per tonne) which was in line with the increase in average price of aluminium in 2020. The gross profit and gross profit margin decreased by approximately 30.7% and 1.4% respectively to approximately RMB44.3 million and 11.2% for the year under review (year ended 31 December 2019: RMB63.9 million and 12.6%) due to the reduction of sales in high and ultra-high voltage bare wires with higher gross profit margin during the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SPECIAL CABLE PRODUCTS — 9.2% OF TOTAL TURNOVER

(RMB'000)



For the year under review, the turnover of special cables increased by approximately 20.2% to approximately RMB1,230.5 million (year ended 31 December 2019: RMB1,024.1 million). The sales volume of special cables for the year ended 31 December 2020 increased by approximately 12.3% to approximately 61,918 km (year ended 31 December 2019: 55,114 km) due to the increase in infrastructure investments in the railway transportation industry, which has provided support to the stable growth of the demand for the special cables of the Group. The average selling price of special cables increased by approximately 7.0% from approximately RMB18,581 per km for the year ended 31 December 2019 to approximately RMB19,874 per km for the year under review. This increase in the average selling price was mainly due to the increase in the average price of copper and the increase in the sales of cables with special functionality which carried higher production costs during the year under review. However, the gross profit margin of special cables decreased by approximately 0.4% to approximately 21.2% (year ended 31 December 2019: 21.6%) due to the change of product mix during the year under review.

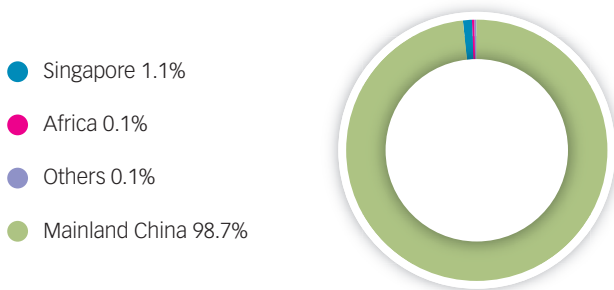
### Turnover by geographical markets

The PRC remained the Group's key market during the year under review. The turnover in the PRC market for the year under review decreased by approximately 7.1% to approximately RMB13,166.3 million (year ended 31 December 2019: RMB14,169.6 million), which accounted for approximately 98.7% (year ended 31 December 2019: 97.6%) of the Group's total turnover, and such decrease was primarily due to the outbreak of the COVID-19 which had reduced customers' consumption of the Group's products during the year under review.

The turnover contributed by the overseas markets decreased by approximately RMB185.7 million or approximately 52.3% to approximately RMB168.9 million for the year under review (year ended 31 December 2019: RMB354.6 million). This decrease was mainly attributable to the decrease in sales in certain major overseas markets, such as Singapore, Vietnam and South Africa, as a result of the outbreak of the COVID-19 in those countries during the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### GEOGRAPHICAL COMBINATION 2020



### Cost of goods sold

Cost of goods sold which was composed of the costs of raw materials, production costs and direct labour costs, decreased by approximately 8.4% to approximately RMB11,910.5 million during the year under review (year ended 31 December 2019: RMB13,005.4 million). The costs of raw materials accounted for approximately 96.1% of cost of goods sold for the year under review (year ended 31 December 2019: 96.0%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 78.8% of the cost of goods sold for the year under review on aggregate basis (year ended 31 December 2019: 78.7%). Direct labour costs remained at approximately 1.2% of the total cost of goods sold for the year under review (year ended 31 December 2019: 1.3%). The remaining balance of approximately 2.7% of the cost of goods sold for the year under review (year ended 31 December 2019: 2.7%) was attributable to production costs which mainly consisted of depreciation of equipment used in the production process, maintenance of production lines and equipment, moulding of parts and components and other miscellaneous production-related costs.

### Gross profit and gross profit margin

The gross profit decreased by approximately RMB94.1 million, or approximately 6.2%, from approximately RMB1,518.8 million for the year ended 31 December 2019 to approximately RMB1,424.7 million for the year under review. Gross profit margin increased from approximately 10.5% for the year ended 31 December 2019 to approximately 10.7% for the year under review. The increase in gross profit margin for the year under review was mainly due to the increase in gross profit margin of power cables which had driven up the overall gross profit margin in 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Profit for the year

Profit for the year under review decreased by approximately 55.8% from approximately RMB383.2 million for the year ended 31 December 2019 to approximately RMB169.5 million. The decrease was mainly attributable to (i) the decrease in turnover by approximately 8.2% to approximately RMB13,335.2 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB14,524.2 million due to the reduced demand for the Group's products during the year under review, as a result of the adverse economic impacts of the COVID-19 pandemic; (ii) the increase in selling and distribution costs by approximately 30.4% to approximately RMB560.1 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB429.6 million, which is mainly due to (a) the increase in the costs incurred in providing better technical support and after-sale services to the Group's customers; and (b) the increase in the costs incurred in bidding projects for the Group; (iii) the increase in administrative expenses by approximately 6.6% to approximately RMB283.0 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB265.5 million, which is mainly due to the increase in the staff costs and general expenses incurred by the Group for the enhancement of its business and employee health management; and (iv) the turning of an exchange gain for the year ended 31 December 2019 of approximately RMB9.3 million to an exchange loss of approximately RMB16.6 million for the year under review, all partially offset by (1) the increase in other income by approximately 8.6% to approximately RMB103.5 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB95.2 million primarily attributable to the combined effect of the recovery of a bad debt which has been written off last year and the decrease in the interest income earned on bank deposits, as a result of the decline in the average balance of the bank deposits placed by the Group during the year under review; (2) the reduction in share of losses from associates by 97.4% to approximately RMB273,000 for the year under review, which amounted to approximately RMB10.6 million for the year ended 31 December 2019; (3) the reduction in impairment losses under the ECL model, net of reversal by approximately 8.8% to approximately RMB93.0 million for the year under review, which amounted to approximately RMB102.0 million for the year ended 31 December 2019, mainly due to the amounts and the aging of the Group's trade and other receivables over one year remaining stable during the year under review; (4) the reduction in finance costs by approximately 7.1% to approximately RMB271.9 million for the year under review as compared with those for the year ended 31 December 2019 of approximately RMB292.8 million, mainly attributable to the Group requiring less financing to fund its working capital in the year under review due to the reduction in the demand for its products; and (5) the decrease in taxation by approximately 35.5% to approximately RMB49.4 million for the year under review as compared with that for the year ended 31 December 2019 of approximately RMB76.7 million, as a result of the reduction in the Group's taxable profit for the year under review.

### Selling and distribution costs

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

The selling and distribution costs increased by approximately RMB130.6 million, or approximately 30.4%, from approximately RMB429.6 million for the year ended 31 December 2019 to approximately RMB560.1 million for the year under review. This increase in selling and distribution costs was mainly due to (i) the increase in the costs incurred in providing better technical supports and after-sales services to the Group's customers; and (ii) the increase in the costs incurred in bidding projects for the Group. The selling and distribution costs as a percentage of turnover increased by approximately 1.2% to approximately 4.2% for the year under review (year ended 31 December 2019: 3.0%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Administrative expenses

The administrative expenses increased by approximately RMB17.5 million, or approximately 6.6%, from approximately RMB265.5 million for the year ended 31 December 2019 to approximately RMB283.0 million for the year under review, mainly due to the increase in staff costs and general expenses incurred by the Group for the enhancement of its business and employee health management during the year under review. The administrative expenses as a percentage of turnover increased from approximately 1.8% for the year ended 31 December 2019 to approximately 2.1% for the year under review.

### Research and development costs

The research and development costs decreased slightly by approximately 0.3% from approximately RMB62.7 million for the year ended 31 December 2019 to approximately RMB62.6 million for the year under review. The Group committed to spending on technological research and development of new products which are expected to contribute higher gross profit margin to the Group (such as the high voltage power cables for charging of new energy vehicles).

### Other (losses) gains, net

Other (losses) gains, net were mainly composed of exchange gain (loss), gain (loss) on disposal of property, plant and equipment and write-down of inventories. Other (losses) gains, net turned from net gain of approximately RMB9.0 million for the year ended 31 December 2019 to net loss of approximately RMB38.3 million for the year under review, which were mainly due to the turning of an exchange gain of approximately RMB9.3 million for the year ended 31 December 2019 to an exchange loss of approximately RMB16.6 million for the year under review and one-off write-down of inventories of approximately RMB20.2 million during the year under review (year ended 31 December 2019: nil).

### Impairment losses under ECL model, net of reversal

Impairment losses under ECL model, net of reversal represented the net impairment losses on trade and other receivables as well as loan to an associate, which decreased by approximately RMB9.0 million, or approximately 8.8%, from approximately RMB102.0 million for the year ended 31 December 2019 to approximately RMB93.0 million for the year under review. This decrease was mainly due to the amounts and the aging of the Group's trade and other receivables over one year remaining stable during the year under review.

### Finance costs

Finance costs decreased by approximately 7.1% from approximately RMB292.8 million for the year ended 31 December 2019 to approximately RMB271.9 million for the year under review, which was mainly attributable to the Group requiring less financing to fund its working capital in the year under review due to the reduction in the demand for its products. Finance costs as a percentage of turnover remained stable at approximately 2.0% for both years.

### Taxation

The Group's taxation decreased by approximately RMB27.2 million, or approximately 35.5%, from approximately RMB76.7 million for the year ended 31 December 2019 to approximately RMB49.4 million for the year under review. The effective tax rate, which is taxation divided by profit before taxation, for the year under review was approximately 22.6% (year ended 31 December 2019: 16.7%). The increase in effective tax rate was mainly due to the increase in the proportion of the losses generated from the overseas subsidiaries of the Company which did not have any assessable profits and tax credit.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Staff number and remuneration

The Group's remuneration policy is based on the position, duties and performance of the employees. The remuneration of the Group's employees, including their salary, overtime allowance, bonus and various subsidies, varies according to their positions. The performance appraisal cycle varies according to the positions of the Group's employees. The performance appraisal of the Group's senior management is conducted annually, and that of the department heads is conducted quarterly while that of the Group's remaining staff is conducted monthly. The performance appraisal is supervised by the Group's performance management committee. The total staff costs of the Group amounted to approximately RMB297.9 (year ended 31 December 2019: RMB289.8 million) for the year under review. In addition, the Group has provided on-the-job training programmes, internal seminars and an e-learning platform to the staff and the management of the Group in order to enhance their career progression.

During the year under review, there was no change to the overall remuneration structure and process of the Group. The duties performed by the remuneration committee of the Company during the year under review are set out in the section headed "Remuneration Committee" in the Corporate Governance Report. As at 31 December 2020, the Group had 3,440 employees with 3,425 based in the PRC, 10 based in South Africa and 5 based in Hong Kong. A breakdown of employees by function as at the same date is as follows:

Department	Number of employees
Management and administration	309
Finance, control and accounting	148
Procurement	28
Production and quality assurance	2,040
Sales and marketing	752
Engineering, research and development	163
Total	3,440

*Notes:*

1. The three independent non-executive Directors are not included above because they are not the Group's employees.
2. Please refer to Note 11 of Notes to the Consolidated Financial Statements for the details of the remuneration of the Directors for the years ended 31 December 2020 and 2019.

### EARNINGS PER SHARE

For the year ended 31 December 2020, the basic earnings per share decreased to HK3.31 cents (or RMB2.79 cents), as compared with HK9.67 cents (or RMB8.66 cents) for the year ended 31 December 2019. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB169.5 million (year ended 31 December 2019: RMB383.2 million) and on the weighted average number of approximately 6,070,164,000 (year ended 31 December 2019: 4,425,897,000) ordinary shares in issue from which the weighted average number of shares held by the trustee for the share award scheme adopted by the Company on 9 September 2015 has been deducted.

For the year ended 31 December 2020, the weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share has not been adjusted for the effect of the shares awarded on 28 January 2016 pursuant to the share award scheme of the Company on 9 September 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

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

## FINANCIAL POSITION OF THE GROUP

### 1. Shareholders' equity

The Group has maintained a solid financial position for the year under review, and the total equity as at 31 December 2020 was approximately RMB6,439.2 million, which was approximately 2.1% higher than the same as at 31 December 2019 of approximately RMB6,308.2 million. Such increase in total equity was mainly attributable to the contribution from net profits which were partially offset by the declaration and payment of 2019 final dividend in the year under review.

### 2. Assets

As at 31 December 2020, total assets of the Group amounted to approximately RMB15,771.8 million (31 December 2019: RMB15,579.5 million), representing an increase of approximately 1.2%.

Non-current assets increased by approximately 2.9% from approximately RMB1,287.2 million as at 31 December 2019 to approximately RMB1,324.3 million as at 31 December 2020. The increase was mainly due to the net effect of addition of property, plant and equipment, the increase in the fair value of equity instrument at fair value through other comprehensive income, the increase in deferred tax assets, the decrease in loan to an associate and the depreciation charged during the year under review.

Current assets increased by approximately 1.1% from approximately RMB14,292.3 million as at 31 December 2019 to approximately RMB14,447.6 million as at 31 December 2020, which was mainly due to the increase in the inventories as at 31 December 2020, which was partially offset by the decrease in the bank balances and cash as at 31 December 2020.

As at 31 December 2020, the Group had bank balances and cash of approximately RMB1,748.1 million (31 December 2019: RMB2,222.5 million), structured deposits of approximately RMB539.8 million (31 December 2019: RMB604.6 million), bank deposits with original maturity over three months of approximately RMB743.0 million (31 December 2019: RMB861.3 million) and pledged bank deposits of approximately RMB2,093.8 million (31 December 2019: RMB2,069.8 million).

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Borrowings

Total interest-bearing bank borrowings increased by approximately 7.4% from approximately RMB3,252.8 million as at 31 December 2019 to approximately RMB3,492.2 million as at 31 December 2020. Of the Group's total bank loans outstanding as at 31 December 2020, approximately 99.2% (31 December 2019: 97.2%) of short-term borrowings were made by the Company's subsidiaries in the PRC, namely Wuxi Jiangnan Cable, Wuxi New Suneng Electric Power Science & Technology Co., Ltd ("Wuxi New Suneng"), Zhongmei Cable, Jiangsu Kai Da Cable Company Limited ("Jiangsu Kai Da") and Wuxi New Sun Cable Company Limited ("Wuxi New Sun"). These loans were not guaranteed by the Company.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash, bank deposits with original maturity over three months and pledged bank deposits) of approximately negative RMB1,092.6 million over total equity of approximately RMB6,439.2 million as at 31 December 2020, dropped from approximately -30.1% as at 31 December 2019 to approximately -17.0% as at 31 December 2020. The deterioration in the net-debt-to-equity ratio as at 31 December 2020 as compared with that as at 31 December 2019, was mainly due to the decrease in the bank balances held by the Group as at 31 December 2020.

As at 31 December 2020, the total debt to total assets ratio of the Group, defined as a percentage of total liabilities (current liabilities and non-current liabilities) of approximately RMB9,332.6 million over total assets (current assets and non-current assets) of approximately RMB15,771.8 million, decreased slightly to approximately 59.2% from approximately 59.5% as at 31 December 2019. The decrease was mainly due to the increase in current assets, mainly arising from increase in the inventories as at 31 December 2020, outweighed the increase in total liabilities.

The Group had sufficient committed but unused banking facilities of approximately RMB2,233.1 million as at 31 December 2020 (31 December 2019: RMB1,918.3 million) to meet the needs of the Group's business development. There was no material seasonality in relation to the borrowing requirements of the Group.

As at 31 December 2020, the Group has pledged certain of its leasehold lands, buildings and machineries with carrying value of approximately RMB274.2 million, RMB146.2 million and RMB55.1 million respectively (31 December 2019: leasehold lands and buildings with carrying values of approximately RMB281.2 million and RMB162.0 million respectively) to certain banks to secure the credit facilities granted to the Group.

During the year under review, the Group's borrowings were mainly denominated in RMB and carried interests at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China ("PBOC"). As at 31 December 2020, the majority of the Group's bank balances and cash were denominated in RMB. As the Group's revenue was mainly denominated in RMB and its major expenses were denominated in either RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the year under review.

As at 31 December 2020, the Group's bank borrowings amounted to approximately RMB3,296.2 million (31 December 2019: RMB3,252.8 million) were repayable within one year and approximately RMB196.0 million (31 December 2019: nil) were repayable within a period of more than one year but not exceeding two years. Approximately 92.0% (31 December 2019: 89.8%) of the Group's total bank borrowings carried fixed interest rates.

During the years ended 31 December 2020 and 2019, no interest expense has been capitalised.

During the years ended 31 December 2020 and 2019, the Group did not employ any financial instruments for hedging purposes.



# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL COMMITMENT

The capital expenditures in the coming year are expected to be settled by cash through internal resources of the Group. Please refer to Note 35 of Notes to the Consolidated Financial Statements for the details of the capital commitment of the Group as at 31 December 2020. Other than those as disclosed, the management of the Group does not expect there to be any plans for material investments or capital assets in the coming year with reference to the current situation as at the date of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### 1. Interest rate risk

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

For the potential financial impact on the Group's performance caused by interest rate risk, please refer to the sensitivity analysis in Note 34 of Notes to the Consolidated Financial Statements.

### 2. Credit risk

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

The Group's credit risk is primarily attributable to its trade and other receivables. The Group has policies in place to ensure that sales are made to customers following an appropriate credit assessment. In addition, the Directors review the recoverable amount of each trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. As at 31 December 2020, the five largest trade receivables represented approximately 17.4% (31 December 2019: 12.8%) of the total trade receivables of the Group.

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Commodity risk

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

### 4. Foreign currency risk

The Group had certain transactions that were denominated in foreign currencies, which made its results of operation susceptible to foreign currency risk. During the year under review, sales denominated in currencies other than the functional currency of the group entity to which it related represented approximately 1.3% (year ended 31 December 2019: 2.5%) of the Group's sales. The Group has an operating subsidiary in South Africa. As a result of the Group's sales and operations, the Group is exposed to currency fluctuations in United States Dollars, Singapore Dollars, South Africa Rands and Hong Kong Dollars.

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

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

For the potential financial impact on the Group's performance caused by foreign currency risk, please refer to the sensitivity analysis in Note 34 of Notes to the Consolidated Financial Statements.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2020. As at the date of this annual report, the Group was not involved in any material legal proceedings, nor was the Group aware of any pending or potential material legal proceedings involving the Group. If the Group was involved in such material legal proceedings, the Group would record any loss contingencies when, based on information then available, it was probable that a loss had been incurred and the amount of the loss could be reasonably estimated.

## PROSPECTS

The details of the Group's prospects are set out in the "Chairman's Statement" in this annual report on pages 12 to 14.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted a code of corporate governance, containing the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and had during the year ended 31 December 2020 ("Relevant Period") complied with the CG Code then in force except for the following deviation.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

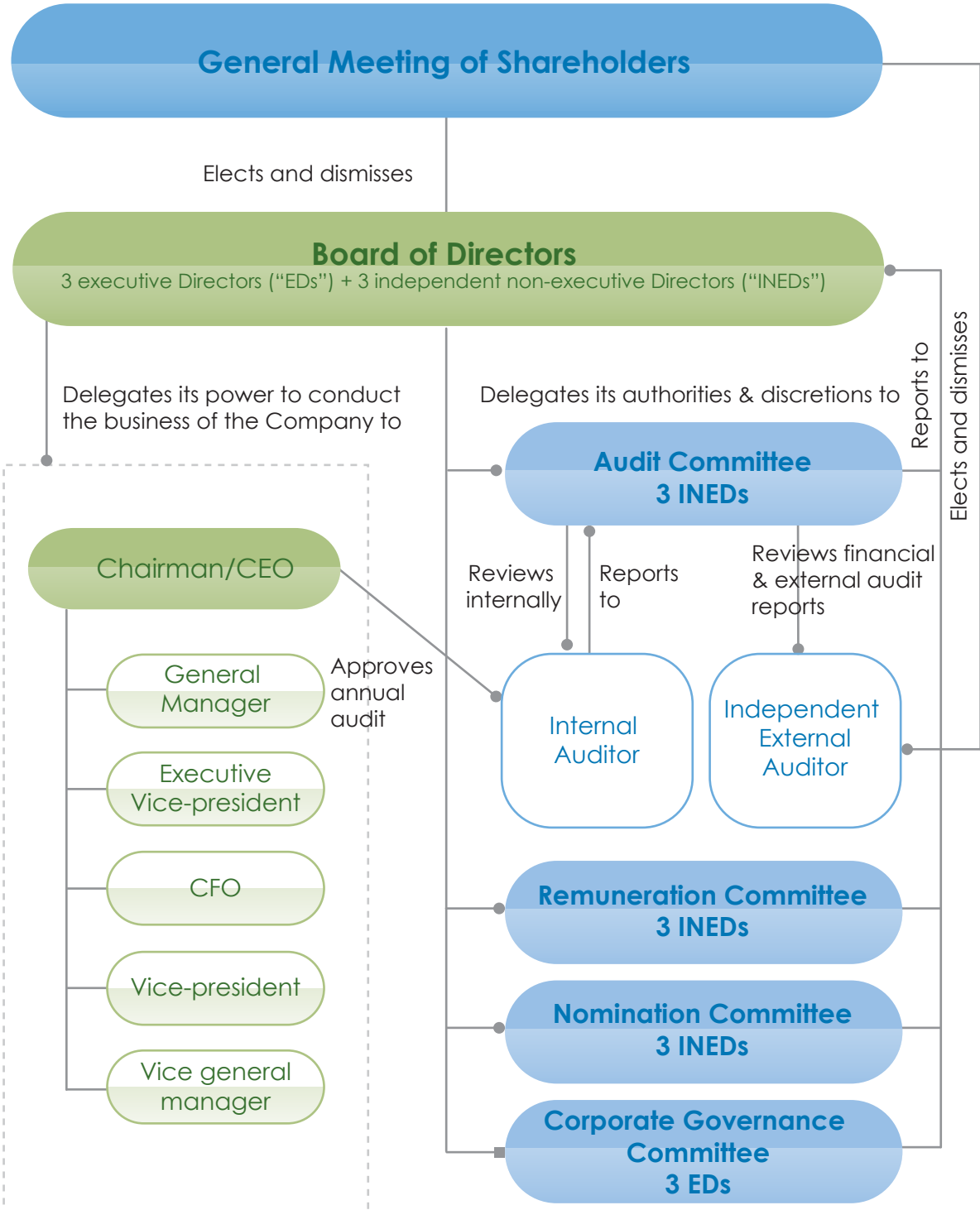
The Company has adopted a code on securities transactions by Directors on terms not less exacting than the required standards contained in the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules ("Model Code").

Specific enquiry has been made of all the Directors who have confirmed their compliance with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2020.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them from dealing in the securities of the Company at any time when they possess inside information in relation to those securities. No incident of non-compliance of the Model Code by any relevant officers or employees during the year ended 31 December 2020 was noted by the Company.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE STRUCTURE



# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

### Board composition

As at 31 December 2020 and the date of this annual report, the Company had three executive Directors and three independent non-executive Directors. Biographical details of the Directors (including the relationships between the Directors) are set out on pages 55 to 57 in this annual report. The Directors bring to the Board a wide range of professional experience in areas of business, financial, legal, technical and industrial, which contribute to the provision of effective direction to the Group. The Board considers its current composition to have achieved good diversity in terms of educational background and professional experience.

The Board comprises the following Directors during the year ended 31 December 2020:

### Executive Directors

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

Ms. Xia Yafang (Member of the Corporate Governance Committee)

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

### Independent non-Executive Directors

Kan Man Yui Kenneth (Chairman of the Audit Committee and member of each of the Remuneration Committee and the Nomination Committee)

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

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

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

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing the appropriate professional qualifications, or accounting or related financial management expertise. The Company has complied with the Listing Rules requirement of independent non-executive directors representing at least one-third of the Board.

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



## CORPORATE GOVERNANCE REPORT

### Board responsibilities and delegation

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

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

### Chairman's responsibilities

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

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

## Directors' responsibilities in respect of the financial statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

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

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

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

## Company secretary

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

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

## Board meetings and attendance

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

## CORPORATE GOVERNANCE REPORT

Five Board meetings and one general meeting (“General Meeting”) were held during the year ended 31 December 2020. The attendance record of each Director at the Board meetings and the General Meeting during the year ended 31 December 2020 is set out below:

Directors	Attendance at Board meetings	Attendance at General Meeting
<b>Executive Directors</b>		
Mr. Chu Hui ( <i>Chairman and Chief Executive Officer</i> )	5	1
Ms. Xia Yafang	5	1
Mr. Jiang Yongwei	5	1
<b>Independent Non-executive Directors</b>		
Mr. He Zhisong	5	1
Mr. Yang Rongkai	5	1
Mr. Kan Man Yiu Kenneth	5	1

### Directors’ continuing professional development programme

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All existing Directors, namely, Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei, Mr. He Zhisong, Mr. Yang Rongkai and Mr. Kan Man Yui Kenneth have confirmed that they have complied with Code Provision A.6.5 of the CG Code for the year ended 31 December 2020. The Company has arranged training in relation to disciplinary matters relating to breach of the Listing Rules and the ESG reporting guidance for the Directors. All existing Director, namely, Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei, Mr. He Zhisong, Mr. Yang Rongkai and Mr. Kan Man Yui Kenneth have received such training.

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

As at the date of this annual report, two of the independent non-executive Directors, Mr. He Zhisong and Mr. Yang Rongkai, have been re-appointed for a term of three years commencing on 1 March 2021, and the independent non-executive Director, Mr. Kan Man Yui Kenneth, has been appointed for a term of three years commencing on 10 June 2019. Pursuant to the articles of association of the Company, all Directors (including the independent non-executive Directors) appointed by the Board shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board), and shall be eligible for re-election at that meeting. All Directors shall be subject to retirement by rotation at least once every three years and the retiring Director shall be eligible for re-election.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

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

### Remuneration Committee

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

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

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

During the year ended 31 December 2020, one Remuneration Committee meeting was held. During the year ended 31 December 2020, the Remuneration Committee had reviewed the remuneration policy of the Company and the remuneration packages of certain Directors, reviewed and made recommendations to the Board in relation to the remuneration packages of the Directors and the senior management, and reviewed the share award scheme ("Share Award Scheme") adopted by the Company in 2015.

Membership and Attendance	
Members	Attendance
<b>Independent Non-executive Directors</b>	
Mr. He Zhisong ( <i>Chairman of the Remuneration Committee</i> )	1
Mr. Yang Rongkai	1
Mr. Kan Man Yui Kenneth	1

## CORPORATE GOVERNANCE REPORT

### Nomination Committee

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

The Board has adopted a board diversity policy which sets out the approach to achieve and maintain diversity of the Board in order to ensure the effectiveness of the Board. Appointment of the Board members is based on meritocracy and the candidates will be considered against objective criteria, having due regard to the benefits of diversity of the Board, including but not limited to gender, age, culture, educational background, professional experience, skills and knowledge. The Company will also take into account factors based on its own business model and specific needs from time to time. The process of the nomination of Directors is led by the Nomination Committee which has been made on a merit basis.

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

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

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

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



## CORPORATE GOVERNANCE REPORT

The Board has also amended the Company’s procedures for the nomination of Directors, which has taken effect on 1 January 2019. Such amended procedures are set out below:

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

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

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

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

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

During the year ended 31 December 2020, two Nomination Committee meetings were held. During the meetings, the Nomination Committee had reviewed the structure, the number of members and the composition of the Board.

Membership and Attendance	
Members	Attendance
<b>Independent Non-executive Directors</b>	
Mr. He Zhisong ( <i>Chairman of the Nomination Committee</i> )	2
Mr. Yang Rongkai	2
Mr. Kan Man Yui Kenneth	2

## CORPORATE GOVERNANCE REPORT

### Audit Committee

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

During the year ended 31 December 2020, four Audit Committee meetings were held. The Audit Committee had reviewed the Company's accounts, results for the year ended 31 December 2019 and results for the six months ended 30 June 2020 and recommended to the Board to adopt, approve and disclose the same in the annual and half-year reports of the Company. The Audit Committee had reviewed and agreed with the audit plan proposed by the Company's independent auditor, Deloitte Touche Tohmatsu. The Audit Committee had also reviewed the risk management and internal control systems adopted by the Group and considered these risk management and internal control systems adopted by the Group, as so far reported, are effective and adequate.

Membership and Attendance	
Members	Attendance
<b>Independent Non-executive Directors</b>	
Mr. Kan Man Yui Kenneth ( <i>Chairman of the Audit Committee</i> )	4
Mr. He Zhisong	4
Mr. Yang Rongkai	3

### Corporate Governance Committee

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

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, one Corporate Governance Committee meeting was held. The Corporate Governance Committee had reviewed the Company's status of compliance with the CG Code and the Company's corporate governance report for the year ended 31 December 2019. The Corporate Governance Committee reviewed and approved the disclosure in this annual report regarding the deviation of the Group from Code Provision A.2.1 of the CG Code.

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

### ACCOUNTABILITY AND AUDIT

#### Financial reporting

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

The responsibilities of Deloitte Touche Tohmatsu, the external auditor of the Company ("Auditor"), are stated in the Independent Auditor's Report of the Company's annual report for the year ended 31 December 2020.

#### External auditor's remuneration

The fees in relation to the audit and non-audit services provided by the Auditor are as follows:

Nature of services	31 December	31 December
	2020	2019
	HK\$'000	HK\$'000
Audit services*	2,800	2,850
Non-audit services (professional services regarding Rights Issue)	—	600
	2,800	3,450

\* During the year ended 31 December 2020, RMB150,000 (2019: nil) was paid to the component auditor of the Group.

## CORPORATE GOVERNANCE REPORT

### **Risk management and internal control**

The Board has overall responsibility for the risk management and internal control systems and reviewing their effectiveness, and it oversees these risk management and internal control systems through the internal audit department of the Group. The internal audit department of the Group reviews the material controls of the Group annually, which aims to cover all major operations of the Group. The internal audit department of the Group also reports review findings and recommends to the Board effective procedures to prevent any operation risk or insufficiency in the risk management and internal control systems of the Group. An internal audit function is in place and provides the Board with reasonable assurance that the risk management and internal control systems of the Group are effective and adequate. The Board (through the internal audit department of the Group) has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering the period from 1 January 2020 to 31 December 2020 in compliance with the requirements under Code Provision C.2 of the CG Code. The Board considered the risk management and internal control systems of the Group effective and adequate. The Board also reviews regularly the adequacy of resources, qualifications and experience of the staff of the Company, the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget.

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

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

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

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

## **SHAREHOLDERS' RIGHTS**

### **General meetings**

During the year ended 31 December 2020, the Company had arranged for the notice to its shareholders to be sent for its annual general meeting at least 20 clear business days before the meeting.

At the general meeting of the Company held during the year ended 31 December 2020, the chairman of the meeting will explain the detailed procedures for conducting a poll and will answer any questions from Shareholders on voting by poll.

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

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

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

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

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

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

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

## CORPORATE GOVERNANCE REPORT

### Shareholders' enquiries

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

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

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

### Investor relations and communication

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

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

### Information disclosure

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

### Constitutional documents

During the financial year ended 31 December 2020, there was no change in the Company's constitutional documents.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SCOPE AND REPORTING PERIOD

This is the Environmental, Social and Governance (“ESG”) Report presented by the Company in compliance with the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules. As the Group’s operations are substantially based in the PRC, this ESG Report focuses on the environmental and social performance of the major operating subsidiaries of the Company during the year ended 31 December 2020, namely Wuxi Jiangnan Cable, Wuxi New Suneng, Zhongmei Cable, Jiangsu Kai Da and Wuxi New Sun in the PRC (collectively referred to as “PRC Subsidiaries”), which accounted for over 99% of the turnover of the Group for the year ended 31 December 2020.

## MISSION AND VISION

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

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

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

## ENVIRONMENTAL ASPECTS

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

### Emissions

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has been closely controlling and managing its carbon emissions and other air emissions (including methane, nitrous oxide and hydrofluorocarbons), with a focus on the efficient operation of its factories in the PRC. The Group has also been working to reduce its emissions by improving its energy efficiency and reducing its wastes throughout its daily operations. While the PRC Subsidiaries are not subject to specific laws and regulations in relation to air emissions, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes for their business operations, they have complied with all other relevant laws and regulations in relation to their business operations during the year under review. The Group’s major wholly-owned subsidiary, Wuxi Jiangnan Cable, which accounted for over 75% of the turnover of the Group in 2020, has engaged China Quality Certification Centre to carry out an independent third-party external examination of its greenhouse gas emissions during the year under review. The certification issued by China Quality Certification Centre in 2020 revealed that Wuxi Jiangnan Cable has complied with the required level of carbon emissions under ISO 14064-1:2006.

During the year under review, the major air pollutants emitted by the factories of the PRC Subsidiaries were carbon dioxide, methane, nitrous oxide and hydrofluorocarbons, which were also greenhouse gases. The following table summarises the greenhouse gas emissions generated by the PRC Subsidiaries during the year ended 31 December 2020.

Type of emissions	Quantity (Tonnes in carbon dioxide equivalent)		Intensity (Tonnes/cost of goods sold in thousand USD (“COGS(k\$)”))	
	2020	2019	2020	2019
Carbon dioxide	79,636	82,749	0.05	0.04
Methane	337	363	$0.19 \times 10^{-3}$	$0.19 \times 10^{-3}$
Nitrous oxide	30	36	$0.17 \times 10^{-4}$	$0.19 \times 10^{-4}$
Hydrofluorocarbons	1	1	$0.54 \times 10^{-6}$	$0.54 \times 10^{-6}$

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

The Group has installed photovoltaic panels with capacity of approximately 18,900 kilowatts (“kW”) on the roof of its production plants to generate solar energy mainly for the Group’s own consumption. In 2020, the photovoltaic panels have generated approximately 19,768 megawatt-hour (“MWh”) (2019: 20,062 MWh) of electricity, where approximately 16,278 MWh (2019: 16,829 MWh) was used for factory operations, approximately 2,192 MWh (2019: 1,938 MWh) was transmitted to local electricity grids and approximately 1,298 MWh (2019: 1,295 MWh) was sold to nearby third-party factories. According to the Group’s estimate, the generation of electricity by such photovoltaic panels has allowed the Group to save the use of approximately 7,710 tonnes (2019: 7,824 tonnes) of standard coal on an annual basis, and reduce approximately 5,377 tonnes (2019: 5,457 tonnes) of dust emissions, approximately 19,709 tonnes (2019: 20,002 tonnes) of carbon dioxide emissions, approximately 593 tonnes (2019: 602 tonnes) of sulfur dioxide emissions and approximately 297 tonnes (2019: 301 tonnes) of nitrogen oxides emissions with reference to the emission of one unit electricity generated by coal-fired power plant.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

### Use of resources

The Group is principally engaged in the manufacture and trading of wires and cables. Resources such as raw materials (particularly copper and aluminium), electricity and water, are essential inputs to the Group's business, particularly to support the operation of its factories in the PRC. In 2020, the PRC Subsidiaries have consumed approximately 111,000 MWh or 0.06 MWh/COGS(k\$) (2019: approximately 108,000 MWh or 0.06 MWh/COGS(k\$)) of electricity, approximately 4,303,000 m<sup>3</sup> or 2.44 m<sup>3</sup>/COGS(k\$) (2019: approximately 4,572,000 m<sup>3</sup> or 2.43 m<sup>3</sup>/COGS(k\$)) of natural gas and approximately 516,000 tonnes or 0.29 tonnes/COGS(k\$) (2019: approximately 476,000 tonnes or 0.25 tonnes/COGS(k\$)) of water. Use of electricity and water increased while the use of natural gas decreased during the year under review mainly due to the addition of machineries for the production lines for medium and high voltage cross-linked cables and irradiation cross-linked wires, which have higher electricity and water consumption level, for the sake of increasing the Group's productivity of those products.

The Group has established a comprehensive environmental management system, which improves the daily control of its environmental protection work, and incorporates elements of the "low-carbon, energy saving, green, environment-friendly" ideology into every detail of the Group's operations. The Group is committed to finding new ways to reduce its energy consumption while improving the quality of its products for its customers. The Group has installed two steam flow metres, which were connected to the energy management platform to allow the use of steam in the factories to be monitored on a real-time basis, and two steam generators and three small steam generators near the energy consumption sites, of those three small steam generators were installed for replacement of an old central steam generator during the year under review, so as to enhance the Group's energy management efficiency and reduce energy loss. In addition, the Group has adopted other measures, including the recycling of cooling water and modifying the method of consuming natural gas according to recommendations of industry expert. All-in-all these measures can reduce wastage and enhance efficiency during operations. Also, as mentioned above, the Group has installed photovoltaic panels on the roof of its production plants to generate renewable and clean solar energy. During the year under review, the Group had continuously committed capital expenditures on acquisition of new machineries to replace old machineries with low efficiency for ongoing increase in productivity and improving energy saving and efficiency use of energy of the Group.

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## The environment and natural resources

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

The Group was accredited as one of the first state-level "Green Factories" by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) and one of "2019 Climate Pioneer Corporation"\* (2019年度氣候先鋒企業) by Energy Foundation China.

## SOCIAL ASPECTS

### Employment and labour practices

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

### Employment

The Group recruits talents in accordance with the principles of openness, equality, competence and competitive selection. The Group's employment practices do not take into consideration factors which are irrelevant to the competence and qualifications of the candidates, such as their gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation and national origin. As at 31 December 2020, the Group had a total of 3,425 (31 December 2019: 3,269) full-time employees employed by the PRC Subsidiaries, whereas the overall employee turnover rate of the PRC Subsidiaries was about 17.1% (2019: 7.8%).

*Breakdown of employees of the PRC Subsidiaries by gender*

Gender	Number of employees	
	31 December 2020	31 December 2019
Male	2,069	1,985
Female	1,356	1,284
Total	3,425	3,269

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Age	Number of employees		Percentage of total workforce	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
18–30	762	712	22.2%	21.8%
31–40	955	946	27.9%	28.9%
41–50	1,008	1,017	29.5%	31.1%
51 and above	700	594	20.4%	18.2%
Total	3,425	3,269	100.0%	100.0%

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

Location of work	Number of employees		Percentage of total workforce	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Mainland China	3,425	3,267	100.0%	99.9%
South Africa	–	2	–	0.1%
Total	3,425	3,269	100.0%	100.0%

Based on the figures stated above, the male to female percentage ratio within the PRC Subsidiaries as at 31 December 2020 was approximately 60:40 (31 December 2019: 61:39). The predominance of males was due to the market practice that a higher proportion of male employees serve as technicians in the workshops of the PRC Subsidiaries. The PRC Subsidiaries will continuously work on improving the balance of gender for those departments that have a heavier weighting of male employees, for example by using new technology to reduce the physical demands of certain jobs making them suitable for female employees.

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

The Group has adopted a share award scheme (“Share Award Scheme”) to recognise the contributions made by certain employees, executives, officers and directors and to give incentives in order to retain them for the continuing operation and development of the Group and to attract suitable talents for further development of the Group. 35,300,000 ordinary shares of the Company were granted to 4 directors and 17 selected employees in 2016 pursuant to the Share Award Scheme. During the year ended 31 December 2020, no share of the Company awarded (2019: 7,800,000 shares) was vested according to the Share Award Scheme and no share of the Company (2019: 25,000 shares) to be vested was forfeited due to the non-fulfilment of certain performance conditions.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

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

### **Health and safety**

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

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

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

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

There were no (2019: nil) work-related fatalities and about 2,057 (2019: 3,986) lost days, representing approximately 0.2% (2019: 0.4%) of total work days due to sickness and work injury in relation to the operations of the PRC Subsidiaries in 2020.

\* For identification purpose only



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Development and training

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

In 2019 and 2020, all employees and management of the PRC Subsidiaries attended different types of training programmes. The following tables summarise the training programmes, mainly internal seminars provided to the employees of the PRC Subsidiaries, which covered various job-related hard and soft skills, such as leadership, team building and personal effectiveness.

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

Gender of attendees	Number of attendance		Number of hours trained		Average number of training hours	
	2020	2019	2020	2019	2020	2019
Male	9,015	4,996	26,985	12,245	3.0	2.5
Female	5,693	3,265	17,237	8,143	3.0	2.5
Total	14,708	8,261	44,222	20,388	3.0	2.5

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

Level of attendees	Number of attendance		Percentage of participants	
	2020	2019	2020	2019
Senior management	436	243	3.0%	2.9%
Middle management	627	690	4.3%	8.4%
General staff	13,645	7,328	92.7%	88.7%
Total	14,708	8,261	100.0%	100.0%

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **Labour standards**

The Group is committed to protecting human rights. The Group complies with all relevant laws and regulations and the requirements of the governing authorities which may have a significant impact on the business of the Group. All the Group's employees are aged over 18 and no child labour has been employed, as it is the Group's policy to perform checks (including employee identity check) at the time of recruitment to prevent and prohibit child labour and forced labour. The Group strives to create an environment of respect, integrity and fairness for its employees. The Group has complied with all relevant laws and regulations in respect of forced labour and child labour in the PRC during the year ended 31 December 2020.

During the year under review, the Group has provided different training and quiz contests to promote the knowledge of production safety laws and rules, labour laws and other related laws and rules for employees.

### **Operating practices**

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

### **Supply chain management**

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

### **Product responsibility**

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

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To protect intellectual property rights, all the Group's products are produced with the relevant certificates. In 2020, the Group has obtained 446 (2019: 377) patents in China for its products, with 94 (2019: 94) products being designated as "High Technology Products" in Jiangsu Province and 5 (2019: 5) products being awarded as "National Key New Products". The Group has established a policy and worked with governmental authorities to prevent counterfeited products from being produced and to protect the Group's intellectual property rights. The Group has established channels for its customers to file their complaints with respect to the products, to allow the Group to assess the situations and follow up with the appropriate actions of redress, including product repair and product recall. In 2020, none of the products of the Group (2019: nil) was recalled due to health and safety reasons and the Group had received 31 (2019: 35) complaints from its customers, where all such complaints had been resolved through communication, repair and redistribution of the products.

There was no known issue regarding material non-compliance with the relevant laws and regulations that would have any significant impact on the business of the Group in respect of health and safety, advertising, labelling and privacy matters relating to the products of the Group during the year ended 31 December 2020.

The Group was awarded a number of awards in relation to product quality, such as "AEO Customs Advanced Certification"\* (海關高級認證 AEO) by the Nanjing Customs Department of the PRC (中華人民共和國南京海關), "Jiangsu Material Cultivating and Developing International Famous Brands"\* (江蘇省重點培育和發展的國際知名品牌) by the Department of Commerce of Jiangsu Province (江蘇省商務廳), "Jiangsu Famous Brand Certificate"\* (江蘇省名牌產品證書) by "Jiangsu Brand Strategy Promotion Committee"\* (江蘇省品牌戰略推進委員會), "National Customer Grade A Satisfaction Benchmarking Enterprise"\* (全國市場質量信用A等用戶滿意標杆企業) by "National User Committee"\* (全國用戶委員會) under "China Association for Quality"\* (中國質量協會), "Top 50 Original Industrial Brand Names in Jiangsu Province"\* (江蘇省自主工業品牌五十強) by Jiangsu government, and "Top 10 Competitors in China Cables Industry" (中國纜纜行業最具競爭力企業10強) by "China Cables Industry Most Competitive Enterprise Jury"\* (中國纜纜行業最具競爭力企業評委會).



### Anti-corruption

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

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

\* For identification purpose only

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The non-compliance of any relevant laws and regulations in respect of anti-corruption will have a significant impact on the business of the Group. However, the Group has complied with all such relevant laws and regulations, and no legal case (2019: nil) against the Group in respect of bribery, extortion, fraud and money laundering has been recorded during the year ended 31 December 2020.

## Community

### Community investment

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

### Highlights

Beneficiaries	Main Activities
<p><b>Students</b></p> 	<ul style="list-style-type: none"> <li><b>Internship Programmes &amp; Site Visits:</b> In 2020, the Group offered 153 internship positions in different departments to students from various colleges and universities, while permanent jobs within the Group were also offered to 28 students.</li> <li><b>Employment of Fresh Graduates:</b> In 2020, the Group employed 150 fresh graduates, 48 of whom have received tertiary education or above.</li> </ul>
<p><b>Community</b></p>  	<ul style="list-style-type: none"> <li><b>Donation to Local Schools:</b> In 2020, the Group has donated hundreds of thousands RMB to local schools for upgrading school facilities for students and rewarding the teachers with outstanding performance.</li> <li><b>Established "Sponsorship and Education Fund" (捐資助學基金):</b> The Group has sponsored over RMB10 million in infrastructure, construction and education aspects, such as green engineering projects, nursing homes and cinemas in recent years.</li> <li><b>Committed Donation:</b> The Group has committed to the Yixing City Charity Association to donate at least RMB10 million for the social charity development in the coming ten years since 2018.</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Beneficiaries      Main Activities**

- Contributions to the COVID-19 prevention:** The Group has donated power cable products, worth of over hundreds of thousands RMB, for construction of Wuhan Leishenshan Hospital, provided aid and anti-epidemic materials, worth of over RMB1 million, to the local government and organisations to combat the spread of the COVID-19 in early 2020.



## Employees



- Jiangnan Group "Love Fund" (愛心基金):** The Group has established the "Love Fund" to encourage its employees to help the employees in need within the Group and promote mutual assistance within the Group.
- "Employee Training Camp"(工匠訓練營):** The Group held a training camp for employees with Jiangsu University of Science and Technology for team building, learning the spirit of craftsmanship and inheriting the quality of craftsmanship.





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Beneficiaries

## Main Activities

- **“Finance and Taxation Knowledge Quiz Competition” (财税知识竞赛):** The Group held a quiz competition for finance employees to improve and strengthen their finance and taxation knowledge through the competition.





## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

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

Mr. Chu Hui (“**Mr. Chu**”), aged 49, was appointed as the Chief Executive Officer on 7 July 2014, an executive Director on 18 July 2013 and the Chairman on 30 May 2016. He has also been the chairman of the Corporate Governance Committee since 30 May 2016. He has over 24 years of experience in the wire and cable industry in the PRC. From May 2005 to December 2014, he was the chairman, an executive director and a general manager of Zhongmei Cable, which is now a wholly-owned subsidiary of the Company, and has been responsible for the overall management of production, operation, sales and administration matters in Zhongmei Cable. Mr. Chu has been a director of Extra Fame Group Limited, Jiangnan Cable (HK) Limited and Wuxi Jiangnan Cable, all being wholly-owned subsidiaries of the Company, since July 2014. Mr. Chu has been a director of Jiangnan Power Assets Limited and Jiangnan Power Assets (HK) Limited, both being wholly-owned subsidiaries of the Company, since September 2015. From June 2003 to November 2004, he was the executive director and general manager of Wuxi Zhongnan Mining Cable Co. Ltd. (無錫中南礦纜有限公司). From November 2001 to May 2003, he was the deputy general manager of Wuxi Jiangnan Wire and Cable Co., Ltd (無錫市江南線纜有限公司) (“Wuxi Jiangnan Wire”). From November 1997 to October 2001, he was the factory director of Shanghai Asahi Cable Factory (上海滬旭電纜廠). From December 1994 to October 1997, he was engaged in the sales and marketing of wires and cables.

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

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

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

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

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

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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

Ms. Xia Yafang (“**Ms. Xia**”), aged 48, was appointed as a Director on 26 January 2011, the executive vice president on 25 February 2012 and an executive Director on 20 April 2012. She is also a member of the Corporate Governance committee and a director of a number of companies in the Group. She joined the Group in 2004. Ms. Xia is in charge of the Group’s overall day to day operations. She was appointed as the chief engineer of Wuxi Jiangnan Cable in August 2011. Ms. Xia has over 25 years of experience in the wire and cable industry in the PRC. From April 2001 to January 2004, she was a director of the technology department and the vice general manager of Wuxi Jiangnan Wire. From March 1996 to March 2001, Ms. Xia was the engineer for cable research technology and the director of crosslinked cable factory of Wuxi Far East Cable Factory. During this tenure, Ms. Xia was in charge of the production and daily operations of the factory. From July 1992 to February 1996, Ms. Xia worked at Wuxi City Jiangnan Cable Factory as a technician. Ms. Xia graduated from the Nanjing Jinling Institute of Technology (formerly known as Nanjing Polytechnic University) with an associate degree in mechanical and electrical engineering in July 1992. Ms. Xia was qualified as a senior economist in November 2005 and a senior engineer in September 2007, both by the Jiangsu Province Personnel Department.

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

Mr. Jiang Yongwei (“**Mr. Jiang**”), aged 54, was appointed as a vice president and a Director on 25 February 2012 and an executive Director on 20 April 2012. He is also a member of the Corporate Governance Committee and a director of a number of companies in the Group. Mr. Jiang joined the Group in February 2004. He is the head of the production department responsible for the Group’s production management. He has over 27 years of experience in the wire and cable industry in the PRC. Mr. Jiang has been a director of Wuxi Jiangnan Cable since February 2004. Mr. Jiang served as a vice general manager of Wuxi Jiangnan Wire from August 1997 to February 2004 and was responsible for its overall production. From January 1990 to July 1997, Mr. Jiang was a director of the infrastructure department of Wuxi Jiangnan Wire. Mr. Jiang graduated from the Southeast University with a master’s degree in business administration in July 2004. Mr. Jiang was qualified as a senior economist in November 2005 by the Jiangsu Province Personnel Department. The spouse of Mr. Jiang is a cousin of the spouse of Mr. Chu, the Chairman, the Chief Executive Officer and an executive Director .

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. He Zhisong (何植松)

Mr. He Zhisong (“**Mr. He**”), aged 51, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also the chairman of each of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee. Mr. He is a partner of Zhong Lun Law Firm. From July 1996 to February 2002, he worked for the Justice Bureau of Zhuhai, Guangdong. From November 1994 to July 1996, he was a partner of Zhuhai Sanlian Law Firm. From July 1992 to November 1994, Mr. He worked in the government of the Jinwan (formerly known as Sanzao) district of Zhuhai. Mr. He obtained a bachelor’s degree and a master’s degree in law from the Southwest University of Political Science and Law and the Renmin University of China in July 1992 and July 1999, respectively.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### Mr. Yang Rongkai (楊榮凱)

Mr. Yang Rongkai (“**Mr. Yang**”), aged 61, was appointed as a Director on 25 February 2012 and an independent non-executive Director on 1 March 2012. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Yang has served as the head of the Electric Equipment Inspection and Test Centre Cable Quality Inspection Station of State Grid Electric Science Research Institute (formerly known as Wuhan High Voltage Research Institute, which was then renamed as State Grid Wuhan High Voltage Research Institute in 2007 and was subsequently merged with State Grid Nanjing Automation Research Institute and named as State Grid Electric Science Research Institute in 2008 (hereinafter called “Electric Science Research Institute”)) since July 2008. Mr. Yang has been a member of the Preparatory Team of the Cable Group of the State Grid Electric Power Research Institute since April 2011. Since 2013, he has been the deputy director of the Research and Development Centre of Intelligent Electrical Equipment Division. He was the deputy chief of the Cable Technology Research Institute and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute from January 2007 to July 2008. From December 2005 to December 2006, he was the chief engineer of Cable Technology Research Centre and the deputy head of the Cable Quality Inspection Station of Electric Science Research Institute. From October 1985 to December 2006, Mr. Yang held various positions in Electric Science Research Institute, including engineer and senior engineer, and was the deputy chief of the Cable Quality Inspection Station. He was appointed as the deputy secretary general at the Electricity Industry Power Cable Standardisation Technology Committee in June 2001. Mr. Yang graduated from the China Electric Power Research Institute with a master’s degree in engineering in December 1985. Mr. Yang was qualified as a senior engineer by the Department of Electric Power of Electric Science Research Institute in December 1992.

### Mr. Kan Man Yui Kenneth (簡民銳)

Mr. Kan Man Yui Kenneth, aged 55, was appointed as an independent non-executive Director on 10 June 2019. He is also the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee. Mr. Kan has over 20 years of experience in the area of accounting and auditing for both listed and private companies in Hong Kong and the PRC. Mr. Kan was the head of the audit and investigation department of Agile Group Holdings Limited (formerly known as Agile Property Holdings Limited) (stock code: 3383), a company listed on the Main Board of the Stock Exchange, from June 2007 to January 2015. Mr. Kan had also served in the audit and compliance areas for companies, including American International Group, Inc., Kowloon-Canton Railway Corporation, Hong Kong Trade Development Council and Standard Chartered Securities Limited. Mr. Kan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Kan obtained his Honours Diploma in Business Management from the Hong Kong Baptist University (formerly known as the Hong Kong Baptist College) in December 1989, a bachelor’s degree in finance from the Hong Kong Baptist University in January 1992 and a master’s degree in business administration from the Heriot-Watt University in July 1998.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### COMMITTEES

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

Board committee Director	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Chu Hui				C
Xia Yafang				M
Jiang Yongwei				M
He Zhisong	M	C	C	
Yang Rongkai	M	M	M	
Kan Man Yui Kenneth	C	M	M	

*Notes:*

C: Chairman of the relevant Board committees

M: Member of the relevant Board committees

### SENIOR MANAGEMENT

**Mr. Chan Man Kiu (陳文喬) ("Mr. Chan")**, aged 59, is the chief financial officer of the Company and the Company Secretary. He is also a director of a number of companies in the Group. Mr. Chan joined the Group in January 2011. Mr. Chan has over 30 years of experience in the field of finance and operations. From June 2007 to December 2010, Mr. Chan served as the deputy chief operating officer in Xinhua Sports and Entertainment Limited. From March 2001 to May 2007, Mr. Chan was the finance director and managing director in business development of Xinhua Finance Limited. From January 1990 to February 2001, he held different managerial roles in Jardine Fleming. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained his Professional Diploma in Accountancy from the Hong Kong Polytechnic in November 1984 and EMBA from the City University of Hong Kong in November 2003.

**Mr. Cao Shunkang (曹順康) ("Mr. Cao")**, aged 50, is the financial controller of the Group in China. Mr. Cao joined Zhongmei Cable, a subsidiary of the Company in 2004. He was appointed as the financial controller of Wuxi Jiangnan Cable in September 2014 and responsible for accounting and financial matters of the Group's operations in China. From July 1997 to May 2003, Mr. Cao was an accountant in Yixing Xin Fang Supply and Marketing Cooperation. He has rich experience in statistics, accounting, office administration and operation controls. Mr. Cao is a qualified accountant in China. Mr. Cao studied management and economics and graduated from the Jiangnan University in 1991. Mr. Cao furthered his study in finance and graduated from the China University of Geosciences in 2013.

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2020.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company and its subsidiaries now composing the Group are principally engaged in the manufacture and trading of wires and cables for power transmission, distribution systems and electrical equipment. The activities of its subsidiaries are set out in Note 41 of Notes to the Consolidated Financial Statements.

The details of business review are set out in the "Management Discussion and Analysis" ("MD&A") in this annual report on page 17. A discussion of the future developments of the Group's business is set out in the "Chairman's Statement" in this annual report on pages 12 to 14. An analysis of the Group's performance is set out on pages 18 to 26. A discussion of the Group's principal risks and uncertainties is set out in the MD&A in this annual report on pages 27 to 28.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

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

### COMPLIANCE WITH LAWS AND REGULATIONS

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

### RELATIONSHIPS WITH KEY STAKEHOLDERS

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

#### Employees

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

## DIRECTORS' REPORT

### Customers

The Group is committed to offering its customers quality products to the best of its ability. During the year under review, the Group maintained effective communications with its customers through various channels, such as telecommunication through salespersons and interviews with key customers. The Group believes that feedback from its customers' would help the Group to identify areas of improvement and hence to achieve excellence. The Group has established over ten years of business relationships with thousands of customers, most of which are well-known companies such as SGCC, China Southern Power Grid Co., Ltd, PowerWorks and subsidiaries of Evergrande Group. In particular, SGCC is one of the Group's major customers. The credit terms granted to the Group's major customers are in line with those granted to the Group's other customers. The Group is keeping up its efforts in expanding its markets and optimising its customer portfolio. For a detailed discussion of the credit terms granted to the Group's customers, and the recoverability and the concentration of credit risk of the Group's trade receivables, please refer to Notes 21 and 34 of Notes to the Consolidated Financial Statements and the paragraph headed "2. Credit risk" in the section headed "Principal Risks and Uncertainties" of the MD&A in this annual report respectively.

### Suppliers

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

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 78 and the state of affairs of the Group as at 31 December 2020 is set out in the consolidated statement of financial position on page 79.

The Board does not recommend the declaration and payment of any final dividend for the year ended 31 December 2020 (year ended 31 December 2019: HK0.5 cent per share) to the shareholders of the Company.



## DIRECTORS' REPORT

### Reserves

Movements in the reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 80.

The Directors consider that the Company's reserves available for distribution to shareholders comprise the share premium, the special reserve and the accumulated profits which amounted to approximately RMB2,545,532,000 (31 December 2019: RMB2,651,786,000) in aggregate as at 31 December 2020. Under the Companies Act of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

### Dividend policy

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

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

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

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

## DIRECTORS' REPORT

### USE OF NET PROCEEDS

#### Net proceeds from the Initial Public Offering ("Listing")

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK\$448.1 million. The amount of unutilised net proceeds from the Listing of approximately HK\$51.5 million was brought forward in the year of 2019. The actual use of the net proceeds from the Listing as at 31 December 2020 are as follows:

	Intended use of net proceeds as stated in the prospectus of the Company dated 10 April 2012 HK\$'million	Actual use of net proceeds as at 31 December 2020 HK\$'million
Setting up production facilities for aluminium alloy and double capacity conductors	115.0	115.0
Setting up a manufacturing facility in South Africa	97.0	97.0
Upgrade and expansion of existing production facilities and enhancement of research and development capabilities	74.0	74.0
Potential acquisitions of the Group	14.1	14.1
Expansion of the Group's production facilities for high and extra-high voltage cables	148.0	108.6
<b>Total</b>	<b>448.1</b>	<b>408.7</b>

During the year under review, the net proceeds from the Listing of approximately HK\$12.1 million were used in the expansion of the Group's production facilities for high and extra-high voltage cables. As at the date hereof, the unutilised net proceeds from the Listing amounted to approximately HK\$39.4 million, which are expected to be used in the expansion of the Group's production facilities for high and extra-high voltage cables in the coming year.

#### Net proceeds from the Rights Issue ("Rights Issue")

On 26 August 2019, the Company announced to raise approximately HK\$571.0 million before expenses by way of the Rights Issue. The subscription price of HK\$0.28 per rights share ("Rights Share") represented a discount of 13.8% to the closing price of HK\$0.325 per share of the Company on 26 August 2019, being the date of the underwriting agreement for the Rights Issue. The Directors considered that it is prudent to finance the Group's long term growth by way of the Rights Issue which will not only strengthen the Group's capital base and enhance its financial position without increasing finance costs, but will also allow all qualifying shareholders of the Company the opportunity to participate in the growth of the Group through the Rights Issue at a price lower than the then current market price of the shares of the Company.

## DIRECTORS' REPORT

The completion of the Rights Issue took place on 22 October 2019. A total of 2,039,433,000 ordinary shares of the Company were allotted and issued to the qualifying shareholders of the Company pursuant to the Rights Issue and the subscribers procured by the underwriter pursuant to the underwriting agreement for the Rights Issue and the net proceeds after deduction of expenses from the Rights Issue were approximately HK\$555.5 million. On this basis, the net issue price per Rights Share was approximately HK\$0.27 and the aggregate nominal value of the Rights Shares was HK\$20,394,330. Details of the Rights Issue are set out in the Company's announcements dated 26 August 2019 and 22 October 2019 and the prospectus of the Company dated 27 September 2019. The actual use of the net proceeds from the Rights Issue as at 31 December 2020 are as follows:

	Intended use of net proceeds as stated in the prospectus of the Company dated 27 September 2019 HK\$'million	Actual use of net proceeds as at 31 December 2020 HK\$'million	Unutilised net proceeds as at 31 December 2020 HK\$'million
Expansion of the Group's production facilities for mid-rated voltage power cables	218.2	97.5	120.7
Upgrade and development of the Group's production facilities for flexible fire-proof cables	37.9	26.5	11.4
Upgrade and expansion of the Group's existing production facilities and management systems	46.9	46.9	–
Repayment of borrowings of the Group	120.0	120.0	–
Potential investment or acquisitions of the Group	110.0	–	110.0
General working capital of the Group	22.5	22.5	–
<b>Total</b>	<b>555.5</b>	<b>313.4</b>	<b>242.1</b>

The unutilised net proceeds from the Rights Issue are expected to be used according to the intended use of net proceeds as stated in the prospectus of the Company dated 27 September 2019 in the coming two years.

### FINANCIAL SUMMARY

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

An analysis of the Group's results by segment for the year ended 31 December 2020 is set out in Note 5 of Notes to the Consolidated Financial Statements.

### SHARE CAPITAL

Details of movements during the year ended 31 December 2020 in the share capital of the Company are set out in Note 31 of Notes to the Consolidated Financial Statements.

## DIRECTORS' REPORT

### SHARE PREMIUM AND RESERVES

Details of movements during the year ended 31 December 2020 in the share premium and reserves of the Group are set out in the consolidated statement of changes in equity on page 80.

### DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report are:

#### Chairman, Chief Executive Officer and Executive Director

Mr. Chu Hui

#### Executive Directors

Ms. Xia Yafang

Mr. Jiang Yongwei

#### Independent Non-executive Directors

Mr. He Zhisong

Mr. Yang Rongkai

Mr. Kan Man Yui Kenneth

In accordance with Article 84(1) of the Company's articles of association, each of Ms. Xia Yafang and Mr. He Zhisong will retire from her/his office of Director by rotation and each of them being eligible, will offer herself/himself for re-election at the forthcoming annual general meeting ("AGM").

The Directors' biographical information is set out on pages 55 to 57.

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

### CONFIRMATION OF INDEPENDENCE

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

### DIRECTORS' SERVICE CONTRACTS

As at the date of this annual report, each of the executive Directors has entered into a service agreement with the Company pursuant to which he/she agreed to act as a Director for a fixed term of three years with effect from 20 March 2021 to 19 March 2024, save and except for Mr. Chu Hui ("Mr. Chu") who has separately entered into a service contract and a supplementary contract with the Company, pursuant to which Mr. Chu was appointed as an executive Director for a fixed term from 1 January 2021 to 31 December 2023. Each of the independent non-executive Directors has been re-appointed for a fixed term of three years from 1 March 2021 to 28 February 2024, save and except for Mr. Kan Man Yui Kenneth ("Mr. Kan") who has separately been appointed for a fixed term of three years from 10 June 2019 to 9 June 2022.

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

## DIRECTORS' REPORT

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

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and associated corporations (within the meaning of Part XV of the SFO, Chapter 571 of the Laws of Hong Kong) as recorded in the register maintained by the Company under section 352 of the SFO, or which were required to notify the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Directors	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest (Note 1)
Mr. Chu Hui	Interest of controlled corporations	2,140,686,000 (Note 2) (Note 3)	34.99%
Ms. Xia Yafang	Beneficial owner	1,668,000	0.03%
	Interest of spouse	1,500,000 (Note 4)	0.02%
Mr. Jiang Yongwei	Beneficial owner	1,500,000	0.02%

Notes:

- (1) The total number of ordinary shares of the Company in issue as at 31 December 2020 (i.e. 6,118,299,000 shares) has been used for the calculation of the approximate percentage of interest.
- (2) These shares were held by Power Heritage, a company wholly-owned by Neowise Capital, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui. Mr. Chu Hui is deemed to be interested in the shares held by Power Heritage by virtue of the SFO.
- (3) Power Heritage had pledged 1,258,838,000 ordinary shares in the issued share capital of the Company, representing approximately 20.57% of the issued share capital of the Company as at 31 December 2020, in favour of an independent third party (meaning ascribed to it in the Listing Rules), as security for a loan provided to Mr. Chu Hui, the ultimate beneficial owner of Power Heritage. The aforesaid shares pledged does not fall within the scope of Rule 13.17 of the Listing Rules.
- (4) These shares represent 1,500,000 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 31 December 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## DIRECTORS' REPORT

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

As at 31 December 2020, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

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

Name of shareholders	Capacity/Nature of interest	Number of ordinary shares held	Approximate percentage of interest (Note 1)
<b>Substantial shareholders</b>			
Ms. Rui Yiyun	Interest of spouse	2,140,686,000 (Note 2)	34.99%
Power Heritage	Beneficial owner	2,140,686,000 (Note 3)	34.99%
無錫光普投資有限公司	Interest of controlled corporations	2,140,686,000 (Note 4)	34.99%
<b>Other persons</b>			
Mr. Jiang Shu	Beneficial owner	329,134,000	5.38%
Ms. Jiang Qin	Interest of spouse	329,134,000 (Note 5)	5.38%

#### Notes:

- (1) The total number of ordinary shares of the Company in issue as at 31 December 2020 (i.e. 6,118,299,000 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) Power Heritage had pledged 1,258,838,000 ordinary shares in the issued share capital of the Company, representing approximately 20.57% of the issued share capital of the Company as at 31 December 2020, in favour of an independent third party (meaning ascribed to it in the Listing Rules), as security for a loan provided to Mr. Chu Hui, the ultimate beneficial owner of Power Heritage. The aforesaid shares pledged does not fall within the scope of Rule 13.17 of the Listing Rules.
- (4) These shares were held by Power Heritage, a company wholly-owned by Neowise Capital, a wholly-owned subsidiary of 無錫光普投資有限公司, which is wholly-owned by Mr. Chu Hui.
- (5) Under the SFO, Ms. Jiang Qin, the spouse of Mr. Jiang Shu, is deemed to be interested in all the shares in which Mr. Jiang Shu is interested.

Save as disclosed above, as at 31 December 2020, the Company has not been notified of any persons who had any interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

As at 31 December 2020, Mr. Chu Hui was a director of each of Power Heritage, Neowise Capital and 無錫光普投資有限公司. Save as disclosed above, as at 31 December 2020, 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.



## DIRECTORS' REPORT

### CONNECTED TRANSACTIONS

During the year ended 31 December 2020, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are subject to the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

The Board confirms that the related party transactions as disclosed in Note 37 of Notes to the Consolidated Financial Statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

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

No transactions, arrangements or contracts of significance to which the Company, its holding company or its subsidiaries was a party and in which a Director or entity connected with a Director had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year ended 31 December 2020.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020 and up to the date of this report, none of the Directors had an interest in any business which competes or may compete with the business in which the Group is engaged.

### MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2020.

### NON-COMPETING UNDERTAKING

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

The Company has adopted the following measures to monitor that the Deed of Non-competition has been complied with during the year ended 31 December 2020:

- (a) the Covenanter has advised the Company that during the year under review, it has not been offered of or become aware of any projects or new business opportunities which relates to the Restricted Business;
- (b) the Company has requested the Covenanter to inform the Board of any possible non-compliance with the Deed of Non-competition from time to time as and when it arises and agree to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking. For the year under review, the Covenanter has complied with the Deed of Non-competition and as such no information has been provided; and
- (c) the independent non-executive Directors have enquired, assessed and reviewed the compliance with the non-competition undertaking by the Covenanter.

After 31 December 2020, the Covenanter has provided a written annual declaration on compliance with its non-competition undertaking for the year under review to the Company.

## DIRECTORS' REPORT

### ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Neither the Company nor any of its holding companies was a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year ended 31 December 2020 and up to the date of this report.

### EMOLUMENT POLICY

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

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

### Share award scheme

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

#### **Purposes**

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

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

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

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

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

## DIRECTORS' REPORT

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

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

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

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

### **Restrictions**

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

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

### **Vesting of Awarded Shares**

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

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

## DIRECTORS' REPORT

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

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

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

### **Termination**

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

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

During the year ended 31 December 2020, no Shares (year ended 31 December 2019: nil) were acquired by the Trustee and no consideration were paid (year ended 31 December 2019: nil).

During the year ended 31 December 2020, no Share (year ended 31 December 2019: nil) was awarded to any Qualified Employee pursuant to the Share Award Scheme and no Share awarded on 28 January 2016 (year ended 31 December 2019: 7,800,000 Shares) was vested to the Qualified Employees pursuant to the Share Award Scheme. No Share (year ended 31 December 2019: 25,000 Shares) to be vested was forfeited due to the non-fulfilment of certain performance conditions during the year ended 31 December 2020.

## DIRECTORS' REPORT

### RETIREMENT BENEFIT SCHEME

With effect from 1 May 2011, the Group has joined a mandatory provident fund scheme (“MPF Scheme”) for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Contributions to the MPF Scheme made by the Group were in accordance with the statutory requirements prescribed by the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (i.e. at least 5% of the employee’s monthly relevant income or HK\$1,500 where the employee’s monthly relevant income exceeds HK\$30,000 with effect from 1 June 2014). The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. During the year ended 31 December 2020, the Group made contribution to the MPF Scheme amounting to approximately HK\$80,000 (year ended 31 December 2019: HK\$84,000).

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

The Group also makes contributions to basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance according to the Social Insurance Law in the PRC. The contribution rates of the Group are based on the local regulations of the social insurance scheme in Yixing, which is 16% for basic pension insurance, 8% for basic medical insurance, 0.5% for unemployment insurance, 1.9% for work-related injury insurance and 0.8% for maternity insurance respectively, and the contributions made were based on the average salary of the workers in Yixing. During the year ended 31 December 2020, the Group made contributions in accordance with the Social Insurance Law of the PRC amounting to approximately RMB41.4 million (year ended 31 December 2019: RMB47.1 million).

### PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company and its subsidiaries is currently in force and was in force throughout the year under review. The Company has also taken out and maintained appropriate insurance cover to indemnify the directors of the Company and its subsidiaries for liabilities that may arise out of the corporate activities in the Group. The insurance coverage is reviewed on an annual basis. During the years ended 31 December 2020 and 2019, no claims were made against the directors of the Company and its subsidiaries.

### PRE-EMPTIVE RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

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

### CHARITABLE DONATIONS

Donations made by the Group to external approved charitable organisations during the year ended 31 December 2020 amounted to approximately RMB2,097,000 (year ended 31 December 2019: RMB664,000).

## DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the Group's largest customer accounted for approximately 4.6% (year ended 31 December 2019: 5.0%) of the Group's revenue and the five largest customers of the Group accounted for approximately 16.0% (year ended 31 December 2019: 12.8%) of the Group's revenue. For the year ended 31 December 2020, the Group's largest supplier accounted for approximately 46.0% (year ended 31 December 2019: 30.8%) of the Group's purchases and the five largest suppliers of the Group accounted for approximately 70.0% (year ended 31 December 2019: 64.1%) of the Group's purchases for the year under review.

At no time during the year ended 31 December 2020 did a Director, a close associate of a Director or a shareholder whom to the knowledge of the Directors owns more than 5% of the Company's issued share capital have an interest in any of the Group's five largest customers or suppliers.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2020.

### AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended 31 December 2020. A resolution will be proposed for approval by shareholders at the AGM to reappoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Chu Hui**

*Chairman and Chief Executive Officer*

Hong Kong, 24 March 2021



# INDEPENDENT AUDITOR'S REPORT

# Deloitte.

# 德勤

## TO THE SHAREHOLDERS OF JIANGNAN GROUP LIMITED

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

### OPINION

We have audited the consolidated financial statements of Jiangnan Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 78 to 137, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS

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

#### Key audit matter

#### How our audit addressed the key audit matter

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

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

As at 31 December 2020, the Group's net trade receivables amounting to RMB5,280,056,000, which represented approximately 33.5% of total assets of the Group.

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

As disclosed in note 34 to the consolidated financial statements, the Group recognised an additional net amount of RMB90,336,000 of impairment of trade receivables for the year ended 31 December 2020 and the Group's lifetime ECL on trade receivables as at 31 December 2020 amounted to RMB511,352,000.

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

- Understanding the credit risk assessment and impairment assessment process and evaluating how the management estimates the loss allowance for trade receivables;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2020 and settlements during the year, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices, bank advices and other supporting documents;
- Challenging management's basis and judgement in determining expected credit loss allowance on trade receivables as at 31 December 2020, including the reasonableness of management's grouping of the trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical observed default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables in note 34 to the consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

### Key audit matter

### How our audit addressed the key audit matter

#### ***Impairment assessment of goodwill***

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

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

As disclosed in note 17 to the consolidated financial statements, the carrying amount of goodwill of the Group is RMB54,775,000 as at 31 December 2020. During the year ended 31 December 2020, no impairment loss on the goodwill is recognised.

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

- Understanding the management's process relating to the preparation of the cash flow forecasts and impairment assessment;
- Evaluating the reasonableness of the cash flow forecasts by comparing the historical financial forecasts against actual performance;
- Analysing the reasonableness of the assumptions made by the management in determining the value in use of the cash-generating units to which the goodwill is allocated, including growth rates and gross margin;
- Working with our internal valuation expert in assessing the appropriateness of the discount rates applied by the management of the Group; and
- Performing sensitivity analysis on the assumptions made by the management in determining the value in use of the cash-generating units to which the goodwill is allocated, including suitable discount rates, growth rates and gross margin.

## OTHER INFORMATION

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Leung Chui Shan.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 March 2021

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

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Turnover	5	<b>13,335,190</b>	14,524,221
Cost of goods sold		<b>(11,910,484)</b>	(13,005,393)
Gross profit		<b>1,424,706</b>	1,518,828
Other income	6	<b>103,469</b>	95,245
Selling and distribution costs		<b>(560,134)</b>	(429,575)
Administrative expenses		<b>(283,047)</b>	(265,540)
Research and development costs		<b>(62,570)</b>	(62,735)
Other (losses) gains, net	7	<b>(38,331)</b>	9,022
Impairment losses under expected credit loss ("ECL") model, net of reversal	8	<b>(92,979)</b>	(101,996)
Share of results of associates		<b>(273)</b>	(10,608)
Finance costs	9	<b>(271,922)</b>	(292,766)
Profit before taxation	10	<b>218,919</b>	459,875
Taxation	12	<b>(49,424)</b>	(76,652)
Profit for the year		<b>169,495</b>	383,223
Other comprehensive expense for the year			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain (loss) on equity instrument at fair value through other comprehensive income ("FVTOCI")		<b>5,120</b>	(3,298)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of a foreign operation		<b>(15,893)</b>	2,323
		<b>(10,773)</b>	(975)
Total comprehensive income for the year		<b>158,722</b>	382,248
Basic and diluted earnings per share	14	<b>RMB2.79 cents</b>	RMB8.66 cents



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	910,493	882,855
Right-of-use assets	16	294,052	301,862
Deposits paid for acquisition of property, plant and equipment		7,301	7,242
Goodwill	17	54,775	54,775
Interests in associates	18	–	2,969
Loan to an associate	18	27,102	34,404
Equity instrument at FVTOCI	19	6,084	964
Deferred tax assets	30	24,447	2,120
		<b>1,324,254</b>	1,287,191
<b>Current assets</b>			
Inventories	20	3,632,728	3,000,870
Trade and other receivables	21	5,647,058	5,533,205
Financial asset at fair value through profit or loss (“FVTPL”)	22	43,156	–
Structured deposits	23	539,769	604,559
Pledged bank deposits	24	2,093,794	2,069,840
Bank deposits with original maturity over three months	24	743,000	861,345
Bank balances and cash	24	1,748,085	2,222,470
		<b>14,447,590</b>	14,292,289
<b>Current liabilities</b>			
Trade and other payables	25	4,894,338	5,157,812
Contract liabilities	26	783,753	710,949
Amounts due to directors	27	4,178	5,325
Bank borrowings	28	3,296,233	3,252,800
Lease liabilities	29	339	169
Taxation payable		94,087	96,404
		<b>9,072,928</b>	9,223,459
Net current assets		<b>5,374,662</b>	5,068,830
Total assets less current liabilities		<b>6,698,916</b>	6,356,021
<b>Non-current liabilities</b>			
Deferred tax liabilities	30	63,526	47,821
Bank borrowings	28	196,000	–
Lease liabilities	29	157	–
		<b>259,683</b>	47,821
Net assets		<b>6,439,233</b>	6,308,200
<b>Capital and reserves</b>			
Share capital	31	51,350	51,350
Reserves		6,387,883	6,256,850
Total equity		<b>6,439,233</b>	6,308,200

The consolidated financial statements on pages 78 to 137 were approved and authorised for issue by the board of directors on 24 March 2021 and are signed on its behalf by:

**Chu Hui**  
DIRECTOR

**Xia Yafang**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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	Total
	RMB'000	RMB'000	RMB'000 (note a)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000	RMB'000 (note b)	RMB'000 (note c)	RMB'000	RMB'000	RMB'000
At 1 January 2019	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
Exchange differences arising from translation of a foreign operation	-	-	-	-	-	-	-	-	2,323	-	2,323
Fair value loss on investment in equity instrument at FVTOCI	-	-	-	-	-	(3,298)	-	-	-	-	(3,298)
Profit for the year	-	-	-	-	-	-	-	-	-	383,223	383,223
Total comprehensive (expense) income for the year	-	-	-	-	-	(3,298)	-	-	2,323	383,223	382,248
Recognition of equity-settled share-based payments	-	-	-	-	398	-	-	-	-	-	398
Shares vested under share award scheme	-	-	-	6,512	(5,089)	-	-	-	-	(1,423)	-
Issue of shares (note 31)	18,399	482,730	-	-	-	-	-	-	-	-	501,129
Transfers	-	-	-	-	-	-	-	38,183	-	(38,183)	-
At 31 December 2019	51,350	2,466,619	148,696	(40,190)	-	(6,126)	77,351	487,762	(30,723)	3,153,461	6,308,200
Exchange differences arising from translation of a foreign operation	-	-	-	-	-	-	-	-	(15,893)	-	(15,893)
Fair value gain on investment in equity instrument at FVTOCI	-	-	-	-	-	5,120	-	-	-	-	5,120
Profit for the year	-	-	-	-	-	-	-	-	-	169,495	169,495
Total comprehensive income (expense) for the year	-	-	-	-	-	5,120	-	-	(15,893)	169,495	158,722
Dividend paid	-	-	-	-	-	-	-	-	-	(27,689)	(27,689)
Transfers	-	-	-	-	-	-	-	27,493	-	(27,493)	-
At 31 December 2020	51,350	2,466,619	148,696	(40,190)	-	(1,006)	77,351	515,255	(46,616)	3,267,774	6,439,233

**Notes:**

- The special reserve represents the difference between the nominal value of the shares of the Company issued in exchange for the entire equity interest in Extra Fame Group Limited pursuant to a group reorganisation in 2012.
- The non-distributable reserve represents capitalisation of accumulated profits of Wuxi Jiangnan Cable Co., Ltd. (“無錫江南電纜有限公司”) (“Wuxi Jiangnan Cable”) for capital re-investment in Wuxi Jiangnan Cable in 2007.
- As stipulated by the relevant laws and regulations in the People’s Republic of China (the “PRC”), the PRC subsidiaries of the Group are required to maintain a statutory surplus fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors (“the Board”) annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before taxation	<b>218,919</b>	459,875
Adjustments for:		
Interest income	<b>(45,744)</b>	(59,772)
Investment income from structured deposits	<b>(16,766)</b>	(22,179)
Finance costs	<b>271,922</b>	292,766
Depreciation of property, plant and equipment	<b>116,395</b>	107,644
(Gain) loss on disposal of property, plant and equipment	<b>(249)</b>	356
Fair value gain on financial asset at FVTPL	<b>(1,074)</b>	—
Impairment loss on interest in an associate	<b>2,840</b>	—
Depreciation of right-of-use assets	<b>8,503</b>	8,647
Impairment losses under ECL model, net of reversal	<b>92,979</b>	101,996
Recovery of other receivables written off in prior year	<b>(25,000)</b>	—
Share of results of associates	<b>273</b>	10,608
Recognition of equity-settled share-based payments	<b>—</b>	398
Write-down of inventories	<b>20,249</b>	—
Operating cash flows before movements in working capital	<b>643,247</b>	900,339
(Increase) decrease in inventories	<b>(653,914)</b>	208,005
Increase in trade and other receivables	<b>(130,683)</b>	(242,899)
(Decrease) increase in trade and other payables	<b>(263,120)</b>	306,533
Increase (decrease) in contract liabilities	<b>72,804</b>	(140,275)
Cash (used in) generated from operations	<b>(331,666)</b>	1,031,703
PRC income tax paid	<b>(58,357)</b>	(94,270)
Net cash (used in) from operating activities	<b>(390,023)</b>	937,433
Investing activities		
Release of bank deposits with original maturity over three months	<b>4,904,032</b>	—
Release of structured deposits	<b>4,902,469</b>	—
Release of pledged bank deposits	<b>3,277,160</b>	3,042,761
Interest received	<b>57,585</b>	77,669
Receipt of other receivables written off in prior year	<b>25,000</b>	—
Repayment from an associate	<b>4,701</b>	—
Proceeds from disposal of property, plant and equipment	<b>2,831</b>	634
Purchase of structured deposits	<b>(4,837,679)</b>	(604,559)
Placement of bank deposits with original maturity over three months	<b>(4,785,687)</b>	(861,345)
Bank deposits pledged	<b>(3,301,114)</b>	(3,043,645)
Purchase of property, plant and equipment	<b>(139,458)</b>	(100,469)
Deposit paid for acquisition of FVTPL	<b>(78,104)</b>	—
Purchase of financial asset at FVTPL	<b>(42,082)</b>	—
Deposits paid for acquisition of property, plant and equipment	<b>(7,301)</b>	(7,242)
Net cash used in investing activities	<b>(17,647)</b>	(1,496,196)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Financing activities		
New bank borrowings raised	4,215,537	3,868,056
Advances from directors	867	2,472
Net proceeds from issue of shares	–	501,129
Repayment of bank borrowings	(3,976,104)	(3,889,571)
Interest paid	(272,212)	(292,456)
Dividend paid	(27,689)	–
Repayment to directors	(2,014)	(2,024)
Repayment of lease liabilities	(366)	(339)
Interest on lease liabilities	(8)	(12)
Net cash (used in) from financing activities	(61,989)	187,255
Net decrease in cash and cash equivalents	(469,659)	(371,508)
Cash and cash equivalents at beginning of the year	2,222,470	2,592,456
Effect of foreign exchange rate changes	(4,726)	1,522
Cash and cash equivalents at end of the year, represented by bank balances and cash	1,748,085	2,222,470

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1. GENERAL INFORMATION

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

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

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

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

In the current year, the Company and its subsidiaries (the “Group”) has applied the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the “Amendments to References to the Conceptual Framework in HKFRS Standards” and the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### **Impacts on application of Amendments to HKAS 1 and HKAS 8 “Definition of Material”**

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

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

HKFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendment to HKFRS 16	COVID-19-Related Rent Concessions <sup>4</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 — 2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021

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

#### **Amendments to HKAS 1 “Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)”**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 “Financial Instruments: Presentation”.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

### **New and amendments to HKFRSs in issue but not yet effective** *(continued)*

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group’s outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group’s liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with HKFRS 16 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

The principal accounting policies are set out below.

#### Basis of consolidation

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

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

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

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

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

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

#### Goodwill

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Goodwill *(continued)*

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

### Investments in associates

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

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

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

#### Property, plant and equipment

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

Construction in progress in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Property, plant and equipment *(continued)*

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

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

### Leases

#### **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.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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

##### *Short-term leases*

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

##### *Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 are depreciated from 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 its estimated useful life and the lease term.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases (continued)

##### **The Group as a lessee** (continued)

###### *Refundable rental deposits*

Refundable rental deposits paid are accounted 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 lease payments that are unpaid at that date. In calculating the present value of 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); and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

#### **Borrowing costs**

Borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are recognised in profit or loss in the period in which they are incurred.

#### **Research and development costs**

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

#### **Inventories**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Impairment on property, plant and equipment and right-of-use assets other than goodwill

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

The recoverable amounts of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 “Revenue from Contracts with Customers”. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

#### **Financial assets**

##### *Classification and subsequent measurement of financial assets*

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

##### (i) Amortised cost and interest income

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

##### *Classification and subsequent measurement of financial assets (continued)*

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income" line item.

##### *Impairment of financial assets*

The Group performs impairment assessment under ECL model on financial assets (including trade and other receivables, loan to an associate, pledged bank deposits, bank deposits with original maturity over three months and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. Customers are assessed for ECL by categorising into receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed collectively using a provision matrix with appropriate groupings. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bank bills.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Financial instruments *(continued)*

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

##### Impairment of financial assets *(continued)*

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

(i) Significant increase in credit risk

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Financial instruments *(continued)*

#### Financial assets *(continued)*

##### Impairment of financial assets *(continued)*

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Financial instruments *(continued)*

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

##### Impairment of financial assets *(continued)*

##### (v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

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

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

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

##### *Derecognition of financial assets*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Financial instruments *(continued)*

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

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

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

##### *Equity instruments*

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

##### *Financial liabilities*

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

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

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

##### *Derecognition of financial liabilities*

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

#### **Equity-settled share-based payment transactions**

##### *Share award scheme*

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Taxation

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

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

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

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

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

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

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

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Taxation *(continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

### Foreign currencies

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Government grants

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

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

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

Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income".

#### Retirement benefits costs

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

#### Short-term benefits

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

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

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### Impairment assessment of trade receivables

The Group uses practical expedient in estimating ECL on trade receivables not backed by bank bills using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the COVID-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could lead to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in notes 21 and 34 respectively.

### Impairment assessment of goodwill

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

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

The carrying amount of goodwill of the Group is RMB54,775,000 (net of accumulated impairment loss of RMB54,831,000) at 31 December 2020 (2019: RMB54,775,000 (net of accumulated impairment loss of RMB54,831,000)). No impairment loss of goodwill is recognised during the years ended 31 December 2020 and 2019 and the information relating to the details of the key assumptions used in assessing the recoverable amount of goodwill is set out in note 17.

### Allowance of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. The management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. Although the Group carries periodic review on the net realisable value of inventories, the actual realisable value of inventories is not known until the sale was concluded. At 31 December 2020, the carrying amount of inventories is RMB3,632,728,000 (2019: RMB3,000,870,000). During the year ended 31 December 2020, a write-down of inventories of RMB20,249,000 is recognised (2019: nil), which is set out in note 7.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 5. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

The information of segment results is as follows:

	2020 RMB'000	2019 RMB'000
Revenue		
— power cables	8,764,274	10,190,329
— wires and cables for electrical equipment	2,944,958	2,804,546
— bare wires	395,422	505,282
— special cables	1,230,536	1,024,064
	<b>13,335,190</b>	14,524,221
Cost of goods sold		
— power cables	7,823,744	9,139,009
— wires and cables for electrical equipment	2,765,370	2,621,690
— bare wires	351,126	441,399
— special cables	970,244	803,295
	<b>11,910,484</b>	13,005,393
Segment results		
— power cables	940,530	1,051,320
— wires and cables for electrical equipment	179,588	182,856
— bare wires	44,296	63,883
— special cables	260,292	220,769
	<b>1,424,706</b>	1,518,828

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

	2020 RMB'000	2019 RMB'000
Reportable segment results	1,424,706	1,518,828
Unallocated income and expenses		
— Other income	103,469	95,245
— Selling and distribution costs	(560,134)	(429,575)
— Administrative expenses	(283,047)	(265,540)
— Research and development costs	(62,570)	(62,735)
— Other (losses) gains, net	(38,331)	9,022
— Impairment losses under ECL model, net of reversal	(92,979)	(101,996)
— Share of results of associates	(273)	(10,608)
— Finance costs	(271,922)	(292,766)
Profit before taxation	<b>218,919</b>	459,875

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

#### Geographical information

More than 90% of the Group's sales were made to customers in the PRC (country of domicile) for both years. More than 90% of the Group's non-current assets were located in the PRC at 31 December 2020 and 2019.

#### Information about major customers

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

### 6. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Bank interest income	39,818	54,806
Interest income from an associate	4,926	4,966
Other interest income	1,000	–
Investment income from structured deposits	16,766	22,179
Government subsidies <i>(note)</i>	12,552	10,473
Recovery of other receivables written off in prior year	25,000	–
Others	3,407	2,821
	<b>103,469</b>	<b>95,245</b>

*Note:* During the current year, the Group recognised government grants of RMB235,000 (2019: nil) in respect of COVID-19-related subsidies, which relates to Employment Support Scheme provided by the Hong Kong government. The remaining amounts represented incentive provided by the PRC local authorities to the Group for encouragement of business development. There were no specific conditions attached to the grants, and the Group recognised the grants upon receipts.

### 7. OTHER (LOSSES) GAINS, NET

	2020 RMB'000	2019 RMB'000
Write-down of inventories <i>(note)</i>	(20,249)	–
Exchange (loss) gain	(16,565)	9,302
Impairment loss on interest in an associate	(2,840)	–
Fair value gain on financial asset at FVTPL	1,074	–
Gain (loss) on disposal of property, plant and equipment	249	(356)
Others	–	76
	<b>(38,331)</b>	<b>9,022</b>

*Note:* During the year ended 31 December 2020, write-down of inventories composed of a loss from disassemble of inventories amounting to RMB20,249,000. The Group had inventories damaged and the damaged inventories had been disassembled. The difference between the carrying amounts of the damaged inventories and their respective estimated net realisable values was recognised as write-down of inventories in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 8. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS (“ECL”) MODEL, NET OF REVERSAL

	2020 RMB'000	2019 RMB'000
Impairment losses under ECL model, net of reversal on:		
Trade receivables	90,336	81,514
Other receivables	2,643	(274)
Loan to an associate	–	20,756
	<b>92,979</b>	<b>101,996</b>

Details of impairment assessment are set out in note 34.

## 9. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interests on bank borrowings	271,914	292,754
Interests on lease liabilities	8	12
	<b>271,922</b>	<b>292,766</b>

## 10. PROFIT BEFORE TAXATION

	2020 RMB'000	2019 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration ( <i>Note 11</i> )	1,786	2,035
Other staff costs:		
Salaries and other benefits	254,677	240,338
Share award expenses	–	294
Retirement benefit schemes contribution	41,485	47,165
Total staff costs ( <i>Note</i> )	297,948	289,832
Less: Staff costs included in research and development costs	(24,514)	(26,381)
	<b>273,434</b>	<b>263,451</b>
Depreciation of property, plant and equipment	116,395	107,644
Less: Depreciation included in research and development costs	(3,571)	(6,041)
	<b>112,824</b>	<b>101,603</b>
Depreciation of right-of-use assets	8,503	8,647
Auditor's remuneration	2,989	3,173
Cost of inventories recognised as expenses	<b>11,884,999</b>	<b>12,975,083</b>

*Note:* During the year ended 31 December 2020, the government subsidies of RMB7,764,000 (2019: nil) to the Group in respect of the COVID-19 were recognised as a deduction of the total staff costs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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

	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit schemes contribution RMB'000	Share award expenses RMB'000 (note e)	Total RMB'000
<b>For the year ended 31 December 2020</b>					
Executive directors:					
Chu Hui (note a)	–	620	21	–	641
Jiang Yongwei	–	380	11	–	391
Xia Yafang	–	439	11	–	450
Independent non-executive directors:					
He Zhisong	87	–	–	–	87
Yang Rongkai	87	–	–	–	87
Kan Man Yui Kenneth (note d)	130	–	–	–	130
	<b>304</b>	<b>1,439</b>	<b>43</b>	<b>–</b>	<b>1,786</b>

	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit schemes contribution RMB'000	Share award expenses RMB'000 (note e)	Total RMB'000
<b>For the year ended 31 December 2019</b>					
Executive directors:					
Chu Hui (note a)	–	605	29	26	660
Jiang Yongwei	–	365	19	26	410
Xia Yafang	–	425	19	26	470
Hao Minghui (note b)	–	147	–	26	173
Independent non-executive directors:					
Poon Yick Pang Philip (note c)	72	–	–	–	72
He Zhisong	88	–	–	–	88
Yang Rongkai	88	–	–	–	88
Kan Man Yui Kenneth (note d)	74	–	–	–	74
	<b>322</b>	<b>1,542</b>	<b>67</b>	<b>104</b>	<b>2,035</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Notes:

- (a) Mr. Chu Hui is the chief executive officer ("CEO") of the Company and the chairman of the Board. His emoluments disclosed above include those services rendered by him as the chairman of the Board and the CEO.
- (b) Mr. Hao Minghui retired as an Executive Director following the conclusion of the Company's annual general meeting held on 27 May 2019.
- (c) Mr. Poon Yick Pang Philip retired as an independent non-executive director of the Company following the conclusion of the Company's annual general meeting held on 27 May 2019.
- (d) Mr. Kan Man Yui Kenneth was appointed as an independent non-executive director of the Company on 10 June 2019.
- (e) The share award expenses represented the accrued value of the shares of the Company awarded to the directors and chief executives of the Company under the share award scheme of the Company (details are set out in note 32), which were vested to the relevant directors and chief executives of the Company on 1 April 2019.

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

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

The five highest paid individuals for the year ended 31 December 2020 included three (2019: two) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2019: three) individuals for the year are as follows:

	2020 RMB'000	2019 RMB'000
Employees		
— basic salaries and allowances	1,793	2,254
— retirement benefit schemes contribution	31	47
— share award expenses	—	26
	<b>1,824</b>	<b>2,327</b>

The emoluments of the two (2019: three) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	1

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 12. TAXATION

	2020 RMB'000	2019 RMB'000
The charge comprises:		
Current tax		
PRC income tax	56,046	98,668
Deferred taxation ( <i>Note 30</i> )	(6,622)	(22,016)
Taxation charge for the year	49,424	76,652

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law ("EIT Law") of the PRC on Enterprise Income Tax ("EIT") and the Regulations of the PRC on the Implementation of the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onward. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) ("Zhongmei Cable") were endorsed as High and New Technology Enterprises on 4 March 2009 (renewed on 30 November 2018) and 2 September 2014 (renewed on 2 December 2020) 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 2023 respectively.

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

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

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	218,919	459,875
Tax at the applicable tax rate ( <i>note</i> )	54,730	114,969
Tax effect of expenses not deductible for tax purpose	16,358	1,900
Tax effect of income not taxable for tax purpose	(3,456)	(3,812)
Tax effect of tax concession granted to PRC subsidiaries	(26,568)	(50,753)
Tax effect of deductible temporary differences not recognised	3,472	1,173
Tax effect of share of results of associates	68	2,652
Withholding tax on undistributed earnings of PRC subsidiaries	3,889	10,745
Others	931	(222)
Taxation for the year	49,424	76,652

*Note:* The applicable income tax rate represents the PRC income tax rate at 25% (2019: 25%) for the year ended 31 December 2020 as the Group's operations are substantially based in the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 13. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Final in respect of the previous financial year — HK0.5 cent (2019: nil)	27,689	—

The Board does not recommend any final dividend for the year ended 31 December 2020 (2019: HK0.5 cent per ordinary share, total of which equivalent to approximately HK\$30,351,000 (equivalent to approximately RMB27,689,000)).

### 14. EARNINGS PER SHARE

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

	2020 RMB'000	2019 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	169,495	383,223

	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of the calculation of basic earnings per share	6,070,164	4,425,897
Effect of dilutive potential ordinary shares: Shares granted under the share award scheme	—	1,396
Weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share	6,070,164	4,427,293

For the year ended 31 December 2019, the weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of the calculation of basic earnings per share had been adjusted for the rights issue of 2,039,433,000 ordinary shares on the basis of one rights share ("Rights Share") for every two existing shares in issue held on the record date at the subscription price of HK\$0.28 per Rights Share, completion of which took place on 22 October 2019.

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share was adjusted for the shares awarded on 28 January 2016 pursuant to the share award scheme adopted by the Company on 9 September 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2019	605,573	694,863	29,492	56,025	62,442	1,448,395
Currency realignment	–	–	79	24	–	103
Additions	2,461	43,164	3,881	25,112	37,721	112,339
Disposals	(3)	(2,064)	(4,362)	(162)	–	(6,591)
Transfers	22,270	52,550	–	–	(74,820)	–
At 31 December 2019	630,301	788,513	29,090	80,999	25,343	1,554,246
Currency realignment	–	–	(208)	(78)	–	(286)
Additions	3,485	48,015	6,336	17,024	71,840	146,700
Disposals	–	(13,577)	(6,432)	–	–	(20,009)
Transfers	206	48	–	3,919	(4,173)	–
At 31 December 2020	633,992	822,999	28,786	101,864	93,010	1,680,651
<b>DEPRECIATION</b>						
At 1 January 2019	180,133	339,530	20,247	29,358	–	569,268
Currency realignment	–	–	61	19	–	80
Provided for the year	31,927	64,414	3,385	7,918	–	107,644
Eliminated on disposals	(2)	(1,489)	(3,959)	(151)	–	(5,601)
At 31 December 2019	212,058	402,455	19,734	37,144	–	671,391
Currency realignment	–	–	(151)	(50)	–	(201)
Provided for the year	35,441	66,370	2,424	12,160	–	116,395
Eliminated on disposals	–	(11,543)	(5,884)	–	–	(17,427)
At 31 December 2020	247,499	457,282	16,123	49,254	–	770,158
<b>CARRYING VALUES</b>						
At 31 December 2020	386,493	365,717	12,663	52,610	93,010	910,493
At 31 December 2019	418,243	386,058	9,356	43,855	25,343	882,855

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

At 31 December 2020, the Group has pledged certain of its buildings and machinery with carrying values of RMB146,198,000 and RMB55,118,000 respectively (2019: building with carrying values of RMB161,992,000) to certain banks to secure credit facilities granted to the Group.

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

Buildings	4.8%
Plant and machinery	9%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 16. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
<b>At 31 December 2020</b>			
Carrying amount	<b>293,538</b>	<b>514</b>	<b>294,052</b>
<b>At 31 December 2019</b>			
Carrying amount	301,601	261	301,862
<b>For the year ended 31 December 2020</b>			
Depreciation charge	<b>8,158</b>	<b>345</b>	<b>8,503</b>
<b>For the year ended 31 December 2019</b>			
Depreciation charge	8,298	349	8,647

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Expense relating to short-term leases	<b>2,725</b>	10,518
Total cash outflow for leases	<b>3,099</b>	10,869
Additions to right-of-use assets	<b>693</b>	310

For both years, the Group leased various offices for its operations. Lease contracts were entered into for fixed term of 24 months. Lease terms were negotiated on an individual basis and contained a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several office buildings and industrial buildings where its manufacturing facilities are primarily located at. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for buildings. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term lease to which short-term lease expense disclosed above.

At 31 December 2020, the Group has pledged the leasehold lands with a carrying amount of RMB274,249,000 (2019: RMB281,232,000) to certain banks to secure the credit facilities granted to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 17. GOODWILL

	RMB'000
COST	
At 1 January 2019, 31 December 2019 and 31 December 2020	109,606
IMPAIRMENT	
At 1 January 2019, 31 December 2019 and 31 December 2020	54,831
CARRYING VALUES	
At 31 December 2020 and 31 December 2019	54,775

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

	2020 RMB'000	2019 RMB'000
Kai Da Investments Limited ("Kai Da")	54,775	54,775

#### Kai Da

The basis of determination of the recoverable amounts of Kai Da and its major underlying assumptions are summarised below:

At 31 December 2020, the recoverable amount of the CGU had been determined based on a value in use calculation. That calculation uses cash flow projections covering a 5-year period, based on financial budgets approved by management and a discount rate of 10.75% (2019: 9.71%) per annum. Cash flows beyond the 5-year period are extrapolated with a 2% (2019: 1%) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate of the relevant industry. No impairment loss is considered necessary for Kai Da.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budget sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for the market development. The cash flow projections, growth rates and discount rate have been reassessed as at 31 December 2020. The management considered the COVID-19 pandemic has no significant impact to these assumptions. The directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU of Kai Da to exceed the aggregate recoverable amount of this CGU.

#### New Sun Investment Limited ("New Sun")

At 31 December 2019 and 2020, the goodwill attributable to New Sun of RMB54,831,000 was fully impaired as it had taken longer than expected to grow the business of New Sun and the recoverable amounts were determined to be lower than the carrying amounts of the assets allocated to this CGU.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

	2020 RMB'000	2019 RMB'000
Cost of investments in associates, unlisted	15,277	15,301
Impairment loss recognised	(3,058)	(242)
Share of post-acquisition losses and other comprehensive expense, net of dividends received	(12,219)	(12,090)
	–	2,969

	2020 RMB'000	2019 RMB'000
Loan to an associate	68,091	75,249
Impairment loss recognised	(20,756)	(20,756)
Less: Share of post-acquisition losses	(20,233)	(20,089)
	27,102	34,404

The loan to an associate is unsecured and carries interest at 8% (2019: 8%) compounded monthly, which in the opinion of the directors of the Company is expected to be repaid after one year and hence it is classified as a non-current asset.

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

Name of entity	Country of incorporation/ establishment	Principal place of operation	Proportion of ownership interest held by the Group 2020 & 2019	Proportion of voting rights held by the Group 2020 & 2019	Principal activity
江蘇和順典當有限公司("江蘇和順")	PRC	PRC	30%	30%	Business of pawn broking
Wuxi Tech (Proprietary) Ltd. ("Wuxi Tech")	South Africa	South Africa	49%	49%	Manufacture of electrical cables

### Summarised financial information of associates

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

江蘇和順

	2020 RMB'000	2019 RMB'000
Current assets	13,019	12,815
Non-current assets	35	35
Current liabilities	3,588	2,953
Net assets	9,466	9,897
Revenue	3	270
Loss and total comprehensive expense for the year	(431)	(93)

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

	2020 RMB'000	2019 RMB'000
Net assets of 江蘇和順	9,466	9,897
Proportion of the Group's ownership interest in 江蘇和順	30%	30%
Carrying amount of the Group's interest in 江蘇和順	2,840	2,969
Impairment loss recognised	(2,840)	–
	–	2,969

#### Impairment assessment

In view of indicator of impairment due to consecutive losses, the management of the Group conducted impairment assessment on recoverable amount of the Group's interest in 江蘇和順 against the carrying amount of RMB2,840,000.

The recoverable amount of the Group's interest in 江蘇和順 has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate is 10.75% as at 31 December 2020.

Based on the result of the assessment, the management of the Group determined that the recoverable amount of the Group's interest in 江蘇和順 is lower than the carrying amount. Based on the value-in-use calculation and the allocation, an impairment of RMB2,840,000 has been recognised against the carrying amount of the Group's interest in 江蘇和順.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

#### Wuxi Tech

	2020 RMB'000	2019 RMB'000
Current assets	41,533	49,830
Non-current assets	58	164
Current liabilities	10,676	15,590
Non-current liabilities	68,088	75,249
Net liabilities	(37,173)	(40,845)
Revenue	2,860	24,850
Loss for the year	(293)	(21,571)
Other comprehensive income (expense) for the year	3,965	(1,276)
Total comprehensive income (expense) for the year	3,672	(22,847)

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

	2020 RMB'000	2019 RMB'000
Net liabilities of Wuxi Tech	(37,173)	(40,845)
Proportion of the Group's ownership interest in Wuxi Tech	49%	49%
	(18,215)	(20,014)
Effect of net liabilities not recognised by the Group	18,215	20,014
Carrying amount of the Group's interest in Wuxi Tech	–	–

### 19. EQUITY INSTRUMENT AT FVTOCI

The amount represents the Group's equity investment in an unlisted private enterprise in the PRC. The directors of the Company have elected to designate this as equity instrument at FVTOCI as they believe that they are not held for trading.

### 20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	69,809	45,440
Work in progress	1,365,380	1,045,693
Finished goods	2,197,539	1,909,737
	3,632,728	3,000,870

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 21. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables from contract with customers	5,791,408	5,521,368
Less: Allowance for credit losses	(511,352)	(422,506)
Trade receivables, net	5,280,056	5,098,862
Deposits paid to suppliers	121,699	254,535
Prepayments	34,622	37,168
Staff advances	27,913	19,712
Tender deposits	85,943	84,228
Value-added tax receivables	1,328	1,480
Prepayment to an unlisted investment fund (note)	78,104	–
Other receivables	17,393	37,220
	5,647,058	5,533,205

Note: The amount represents prepayment to a financial institution for further investment in an unlisted investment fund as detailed in note 22.

At 1 January 2019, trade receivables from contract with customers amounted to RMB5,054,838,000.

At 31 December 2020, total bills received amounting to RMB1,136,959,000 (2019: RMB452,500,000) are held by the Group for future settlement of trade receivables.

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

The following is an aging analysis of trade receivables fully backed by bank bills and not backed by bank bills, net of allowance for credit losses, based on the issuance date of the bills or the invoice date, respectively, at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
0 to 90 days	2,450,994	2,597,767
91 to 180 days	1,116,675	861,147
181 to 365 days	618,313	569,673
Over 365 days	1,094,074	1,070,275
	5,280,056	5,098,862

At 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,336,984,000 (2019: RMB2,598,554,000) which are past due as at the reporting date. Out of the past due balance, RMB2,207,697,000 (2019: RMB2,280,722,000) has been past due 90 days or more and is not considered as in default based on good repayment records for those debtors and continuous business relationships with the Group. Other than the bills received amounting to RMB1,136,959,000 (2019: RMB452,500,000), the Group does not hold any collateral over these balances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

The carrying amount of bills receivables amounting to RMB72,648,000 (2019: RMB47,272,000) have been pledged as security for the Group's borrowing.

Details of impairment assessment are set out in note 34.

No interest is charged on trade receivables.

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

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

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

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

	2020 RMB'000	2019 RMB'000
United States dollars ("USD")	33,972	15,134
Hong Kong dollars ("HKD")	78,979	1,335
Singapore dollars ("SGD")	141,830	121,712
Euro	648	–

### 22. FINANCIAL ASSET AT FVTPL

As at 31 December 2020, the Group held one unlisted investment fund which is managed by a financial institution and invests in financing activities to private companies and money market fund. In accounting for the fair value measurement of the investment in unlisted investment fund, the management of the Group has determined that the quoted asset values of the unlisted investment fund provided by the financial institution represented the fair values of the unlisted investment fund.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 23. STRUCTURED DEPOSITS

At 31 December 2020, the Group's structured deposits represent financial products issued by banks, with maturity of 12 months (2019: 12 months) and expected returns ranging from 0.3% to 2.15% (2019: 1.50% to 2.85%) per annum. The investments in financial products are classified as financial assets at FVTPL at initial recognition and measured at fair value at the end of the reporting period. The directors of the Company consider the fair value of the financial products approximate to the carrying amount as at 31 December 2020 and 2019 because of their short maturities.

### 24. PLEDGED BANK DEPOSITS/BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/BANK BALANCES AND CASH

The pledged bank deposits carry interest at prevailing market rate ranging from 0.3% to 4.1% (2019: 1.1% to 4.1%) per annum at 31 December 2020.

At 31 December 2020 and 2019, the entire pledged bank deposits represent deposits pledged to banks to secure the bank facilities drawn and the issuance of bills payables by the Group.

Bank deposits with original maturity over three months carry interest at prevailing market rate at 3.30% (2019: 3.07%) per annum at 31 December 2020.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at prevailing market rate ranging from 0.1% to 1.15% (2019: 0.3% to 2.8%) per annum at 31 December 2020.

Details of impairment assessment are set out in note 34.

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

	2020 RMB'000	2019 RMB'000
USD	110,235	343,966
HKD	16,100	4,495
SGD	26,517	–
Euro	5	5

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 25. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	4,526,922	4,734,360
Payroll and welfare accruals	110,737	101,447
Consideration payables (note a)	130,698	130,698
Loans advanced from staff (note b)	16,010	67,179
Other tax payables	31,613	27,504
Other deposits	2,896	3,880
Other payables and accruals	75,462	92,744
	<b>4,894,338</b>	5,157,812

Included in the Group's trade payables as at 31 December 2020 are bills payables of RMB2,356,148,000 (2019: RMB2,392,462,000).

Notes:

- (a) The amounts represent consideration payables by the Group in connection with the acquisition of subsidiaries in prior years.
- (b) The amounts represent loans advanced from staff of the Group, which are unsecured, non-interest bearing and repayable on demand.

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

	2020 RMB'000	2019 RMB'000
0 to 90 days	1,981,484	1,973,144
91 to 180 days	1,032,639	1,139,182
181 to 365 days	1,409,906	1,567,163
Over 365 days	102,893	54,871
	<b>4,526,922</b>	4,734,360

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

	2020 RMB'000	2019 RMB'000
USD	130,698	130,698
HKD	70,339	65,470



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 26. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Advances from customers	<b>783,753</b>	710,949

As at 1 January 2019, contract liabilities amounted to RMB851,224,000.

The contract liabilities as at 1 January 2020 were fully recognised as revenue in the current year (1 January 2019: fully recognised as revenue in 2019).

### 27. AMOUNTS DUE TO DIRECTORS

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

### 28. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank borrowings comprise the following:		
— Within one year	<b>3,296,233</b>	3,252,800
— Within a period of more than one year but not exceeding two years	<b>196,000</b>	—
	<b>3,492,233</b>	3,252,800
Less: Amount due within one year shown under current liabilities	<b>3,296,233</b>	3,252,800
Amount due after one year shown under non-current liabilities	<b>196,000</b>	—
Secured	<b>514,383</b>	550,050
Secured and guaranteed by independent third parties	<b>393,000</b>	201,900
Unsecured	<b>1,609,850</b>	1,327,850
Unsecured and guaranteed by independent third parties	<b>975,000</b>	1,173,000
	<b>3,492,233</b>	3,252,800
The bank borrowings comprise of:		
Variable rate borrowings	<b>278,833</b>	330,550
Fixed rate borrowings	<b>3,213,400</b>	2,922,250
	<b>3,492,233</b>	3,252,800

At 31 December 2020, the fixed rate bank borrowings carry interest ranging from 3.1% to 5.7% (2019: 3.25% to 5.1%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 28. BANK BORROWINGS *(continued)*

At 31 December 2020, the variable rate bank borrowings carry interest ranging from Euro Interbank Offered Rate plus + 0.6% to 120% of the People's Bank of China ("PBOC") rate (2019: Euro Interbank Offered Rate plus + 0.6% or 120% of PBOC rate) per annum.

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

	2020 RMB'000	2019 RMB'000
Euro	<b>75,833</b>	137,550

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

	2020 RMB'000	2019 RMB'000
For bank borrowings:		
— property, plant and equipment	<b>201,316</b>	161,992
— right-of-use assets	<b>274,249</b>	281,232
— bills receivables	<b>72,648</b>	47,272
For bank borrowings and bills payables:		
— pledged bank deposits	<b>2,093,794</b>	2,069,840
	<b>2,642,007</b>	2,560,336

### 29. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Within one year	<b>339</b>	169
Within a period of more than one year but not more than two years	<b>157</b>	—
	<b>496</b>	169
Less: Amount due for settlement with 12 months shown under current liabilities	<b>339</b>	169
Amount due for settlement after 12 months shown under non-current liabilities	<b>157</b>	—

The weighted average incremental borrowing rate applied to lease liabilities was 1.97% (2019: 3.35%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 30. DEFERRED TAXATION

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

	Accelerated tax depreciation RMB'000	Revaluation of assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	2,710	(37,356)	(33,071)	(67,717)
(Charged) credited to profit or loss for the year (Note 12)	(590)	2,579	7,627	9,616
Released upon dividends declared	–	–	12,400	12,400
At 31 December 2019	2,120	(34,777)	(13,044)	(45,701)
(Charged) credited to profit or loss for the year (Note 12)	(590)	2,478	4,734	6,622
At 31 December 2020	1,530	(32,299)	(8,310)	(39,079)

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

	2020 RMB'000	2019 RMB'000
Deferred tax assets	24,447	2,120
Deferred tax liabilities	(63,526)	(47,821)
	(39,079)	(45,701)

Deferred tax liability on the undistributed profits of the PRC subsidiaries earned during the year ended 31 December 2020 has been accrued at the tax rate of 10% (2019: 10%) on the expected dividend stream out of the undistributed profits of the PRC subsidiaries for each year which is determined by the directors of the Company. At 31 December 2020, an amount of RMB881,671,000 (2019: RMB799,104,000) of the profits of the PRC subsidiaries has been provided in respect of such withholding tax. No deferred tax liability has been recognised in respect of the remaining balance of undistributed profits amounting to approximately RMB2,503,291,000 (2019: RMB2,899,703,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 31. SHARE CAPITAL

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

	Number of shares	Amount in HK\$	Shown in the financial statements as RMB'000
<b>Ordinary shares at HK\$0.01 each</b>			
Authorised:			
At 1 January 2019, 31 December 2019 and 31 December 2020	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2019	4,078,866,000	40,788,660	32,951
Issue of shares ( <i>note</i> )	2,039,433,000	20,394,330	18,399
At 31 December 2019 and 31 December 2020	6,118,299,000	61,182,990	51,350

*Note:* On 22 October 2019, the Company had issued 2,039,433,000 Rights Shares, on the basis of one rights share for every two existing shares held at the subscription price of HK\$0.28 per rights share ("Rights Issue"). Details of the Rights Issue were set out in the Company's prospectus dated 27 September 2019 and the announcements of the Company dated 26 August 2019 and 22 October 2019.

### 32. SHARE AWARD SCHEME

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 32. SHARE AWARD SCHEME (continued)

The fair value of the Awarded Shares granted was determined with reference to market value of the shares on the grant date taking into account the price volatility of the Company, risk-free rate and the vesting period as well as the exclusion of the expected dividends, as the employees are not entitled to receive dividends paid during the vesting period. The fair value of the Awarded Shares on the grant date was HK\$30,182,000 (equivalent to RMB25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to HK\$449,000 (equivalent to RMB398,000) for the year ended 31 December 2019 (2020: nil).

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

	Number of shares '000
Outstanding as at 1 January 2019	7,825
Award Shares vested (note)	(7,800)
Award Shares forfeited (note)	(25)
Outstanding as at 31 December 2019 and 31 December 2020	–

Note: 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.

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

	Number of shares purchased '000	Cost of purchase HK\$'000	Cost of purchase RMB'000
At 1 January 2019	55,935	55,377	46,702
Shares transferred out upon being vested	(7,800)	(7,722)	(6,512)
At 31 December 2019 and 31 December 2020	48,135	47,655	40,190

### 33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits as disclosed in the consolidated financial statements.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost	10,023,286	10,428,081
Equity instrument at FVTOCI	6,084	964
Structured deposits at FVTPL	539,769	604,559
Financial asset at FVTPL	43,156	—
Financial liabilities		
Amortised cost	8,172,937	8,194,242

### Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, loan to an associate, pledged bank deposits, bank deposits with original maturity over three months, bank balances and cash, structured deposits, equity instrument at FVTOCI, financial asset at FVTPL, trade and other payables, amounts due to directors and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the interest bearing bank balances and bank borrowings at variable interest rate. Bank borrowings and lease liabilities at fixed interest rates exposed the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates offered by PBOC from its RMB denominated bank balances and bank borrowings, the fluctuation of the interest rates offered by the Euro Interbank Offered Rate from its USD, SGD, HKD and Euro denominated bank balances and bank borrowings.

The sensitivity analysis below has been determined based on the exposure of interest rates for interest bearing bank balances and variable rate bank borrowings at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If the interest rates on variable rate bank balances and bank borrowings had been 25 basis points (2019: 25 basis points) lower and all other variables were held constant, the potential effect on profit for the year is as follows:

	2020 RMB'000	2019 RMB'000
Increase in profit for the year	3,136	3,541

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 34. FINANCIAL INSTRUMENTS (continued)

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

##### Market risk (continued)

##### Interest rate risk (continued)

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

##### Currency risk

The Group has foreign currency sales and purchases during the year which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2020		2019	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
USD	144,207	130,698	359,100	130,698
HKD	95,079	70,339	5,830	65,470
SGD	168,347	–	121,712	–
Euro	653	75,833	5	137,550

The Group is mainly exposed to currency risk of USD, HKD, SGD and Euro. The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against the relevant foreign currencies. The Group currently does not have any foreign currency hedging policy and will consider hedging its foreign currency exposure should the need arise. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates. If RMB strengthens 5% (2019: 5%) against the relevant foreign currencies, the increase (decrease) in post tax profit for the year is as follows:

	2020 RMB'000	2019 RMB'000
USD	(574)	(9,707)
HKD	(1,051)	2,535
SGD	(7,156)	(5,173)
Euro	3,195	5,846

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34. FINANCIAL INSTRUMENTS *(continued)*

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

#### **Credit risk and impairment assessment**

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, loan to an associate, pledged bank deposits, bank deposits with original maturity over three months and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with settlement of certain trade receivables are backed by bank bills issued by reputable financial institutions.

In order to minimise the credit risk, the management has reviewed the recoverable amounts of trade receivables regularly to ensure that follow-up action is taken timely and assigned a dedicated team to monitor the credit risk. In addition, the Group performed impairment assessment under ECL model upon application of HKFRS 9 based on provision matrix assessment. In this regard, the directors of the Company consider that the credit risk on trade receivables is significantly reduced.

For other receivables, the management makes periodic individual assessment on the recoverability of other receivables based on historical settlement records and past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management of the Group believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL.

For loan to an associate, the management of the Group regularly monitors the business performance of the associates. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate the relevant activities of these entities.

The Group's credit risk on bank deposits and balances is limited and there is no significant concentration of credit risk because all bank deposits and balances are deposited in or contracted with several state-owned banks with good reputation and with high credit ratings assigned by international credit-rating agencies.

In determining the ECL for trade receivables backed by bank bills, the management of the Group considers the risk of default is low as the trade receivables are backed by bank bills issued by banks with high credit rating and accordingly, the management applied the ECL rate at 0.45% (2019: 0.2%) in the ECL assessment. At 31 December 2020, the gross carrying amount of trade receivables backed by bank bills is RMB1,145,170,000 (2019: RMB453,407,000).

For trade receivables not backed by bank bills, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these by using a provision matrix, grouped by shared credit risk characteristics of these trade receivables.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables not backed by bank bills which are assessed based on provision matrix within lifetime ECL (not credit-impaired).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 34. FINANCIAL INSTRUMENTS *(continued)*

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

#### Credit risk and impairment assessment *(continued)*

At 31 December 2020

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Age				
0–365 days	3,105,227	1.81%	56,204	3,049,023
1–2 years	625,242	14.40%	90,035	535,207
2–3 years	310,812	26.46%	82,226	228,586
Over 3 years	604,957	45.40%	274,676	330,281
	4,646,238		503,141	4,143,097

At 31 December 2019

	Gross carrying amount RMB'000	Weighted average loss rate	Loss allowance RMB'000	Net carrying amount RMB'000
Age				
0–365 days	3,640,370	1.77%	64,283	3,576,087
1–2 years	572,969	14.37%	82,361	490,608
2–3 years	353,384	23.19%	81,949	271,435
Over 3 years	501,238	38.51%	193,006	308,232
	5,067,961		421,599	4,646,362

For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

At 31 December 2020

	Gross carrying amount		Total RMB000
	Past due RMB'000	Not past due/ no fixed repayment terms RMB'000	
Other receivables	–	140,427	140,427
Loan to an associate	–	47,858	47,858

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 34. FINANCIAL INSTRUMENTS *(continued)*

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

#### Credit risk and impairment assessment *(continued)*

At 31 December 2019

	Gross carrying amount		Total RMB'000
	Past due RMB'000	Not past due/ no fixed repayment terms RMB'000	
Other receivables	–	147,695	147,695
Loan to an associate	–	55,160	55,160

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

	Loan to an associate under lifetime ECL (credit- impaired) RMB'000	Other receivables under 12m ECL (not credit- impaired) RMB'000	Other receivables under lifetime ECL (credit- impaired) RMB'000	Trade receivables not backed by bank bills under lifetime ECL (not credit- impaired) RMB'000	Trade receivables backed by bank bills under lifetime ECL (not credit- impaired) RMB'000
At 1 January 2019	–	6,809	39,104	350,548	–
Changes due to financial instruments recognised as at 1 January 2019:					
— Impairment losses recognised	20,756	–	–	16,324	–
— Impairment losses reversed	–	(274)	–	–	–
— Write-offs	–	–	(39,104)	(9,556)	–
Impairment losses recognised for new financial assets originated	–	–	–	64,283	907
At 31 December 2019	20,756	6,535	–	421,599	907
Changes due to financial instruments recognised as at 1 January 2020:					
— Impairment losses recognised	–	2,643	–	26,828	–
— Impairment losses reversed	–	–	–	–	(907)
— Write-offs	–	–	–	(1,490)	–
Impairment losses recognised for new financial assets originated	–	–	–	56,204	8,211
At 31 December 2020	20,756	9,178	–	503,141	8,211

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 34. FINANCIAL INSTRUMENTS (continued)

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

##### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures the compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on agreed payment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Repayable on demand or less than 6 months RMB'000	6 months to 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2020</b>						
Trade and other payables	–	4,676,526	–	–	4,676,526	4,676,526
Amounts due to directors	–	4,178	–	–	4,178	4,178
Bank borrowings:						
— variable rate	3.70	128,975	154,951	–	283,926	278,833
— fixed rate	4.67	1,360,353	1,733,422	208,051	3,301,826	3,213,400
		6,170,032	1,888,373	208,051	8,266,456	8,172,937
Lease liabilities	1.97	171	171	161	503	496

	Weighted average effective interest rate %	Repayable on demand or less than 6 months RMB'000	6 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>At 31 December 2019</b>					
Trade and other payables	–	4,936,117	–	4,936,117	4,936,117
Amounts due to directors	–	5,325	–	5,325	5,325
Bank borrowings:					
— variable rate	3.11	107,625	227,754	335,379	330,550
— fixed rate	5.00	1,622,163	1,366,310	2,988,473	2,922,250
		6,671,230	1,594,064	8,265,294	8,194,242
Lease liabilities	3.35	–	170	170	169

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 34. FINANCIAL INSTRUMENTS (continued)

### Fair value measurements of financial instruments

#### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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

Financial assets	31 December		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2020 RMB'000	2019 RMB'000				
Financial asset at FVTPL	<b>Unlisted investment fund: 43,156</b>	–	Level 2	Quoted asset value provided by a financial institution	N/A	N/A
Equity instrument at FVTOCI	<b>Unlisted equity investment: 6,084</b>	Unlisted equity investment: 964	Level 3	Dividend yield	Dividend yield of several comparable companies	The lower the dividend yield, the higher the fair value of unlisted equity securities.
Structured deposits	<b>539,769</b>	604,559	Level 3	Discounted cash flow	Discount rate	The higher the discount rate, the lower the fair value.

#### Reconciliation of level 3 fair value measurements

	Unlisted investment fund RMB'000	Unlisted equity investment RMB'000	Structured deposits RMB'000
At 1 January 2019	–	4,262	–
Fair value loss in other comprehensive income	–	(3,298)	–
Purchases during the year	–	–	604,559
At 31 December 2019	–	964	604,559
Fair value gain in other comprehensive income	–	5,120	–
Fair value gain in profit or loss	1,074	–	–
Purchases during the year	42,082	–	4,837,679
Release during the year	–	–	(4,902,469)
At 31 December 2020	43,156	6,084	539,769

There were no transfers between levels of the fair value hierarchy in both years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 34. FINANCIAL INSTRUMENTS *(continued)*

#### Fair value measurements of financial instruments *(continued)*

##### **Fair value of the Group's financial assets that are not measured at fair value on a recurring basis**

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

### 35. CAPITAL COMMITMENT

	2020 RMB'000	2019 RMB'000
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	<b>57,769</b>	15,241

### 36. RETIREMENT BENEFITS SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group participates in a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK\$1,500 per month for each employee.

The total expense recognised in profit or loss of approximately RMB41,528,000 (2019: RMB47,232,000) represents contribution payable to these schemes by the Group at rates specified in the rules of the plan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 37. RELATED PARTIES TRANSACTIONS

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

	2020 RMB'000	2019 RMB'000
Sales of goods to an associate	921	3,719
Purchases of goods from an associate	1,124	1,361
Interest income from an associate	4,926	4,966
Amount due from an associate included in trade receivables	8,933	15,087

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

Other than the transactions and balances with related parties above and those disclosed in notes 18 and 27, the Group had no other significant transactions and balances with related parties during the year.

The details of remuneration of key management personnel, represents the emoluments of directors of the Company paid during the year, are set out in note 11.

### 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to directors RMB'000 (note 27)	Bank borrowings RMB'000 (note 28)	Interest payable RMB'000	Lease liabilities RMB'000 (note 29)	Dividend payable RMB'000	Total RMB'000
At 1 January 2019	4,877	3,274,315	–	508	–	3,279,700
Financing cash flows	448	(21,515)	(292,456)	(351)	–	(313,874)
Interest expense	–	–	292,754	12	–	292,766
At 31 December 2019	5,325	3,252,800	298	169	–	3,258,592
Financing cash flows	(1,147)	239,433	(272,212)	(374)	(27,689)	(61,989)
New leases entered	–	–	–	693	–	693
Interest expense	–	–	271,914	8	–	271,922
Dividend declared	–	–	–	–	27,689	27,689
At 31 December 2020	4,178	3,492,233	–	496	–	3,496,907



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
Non-current assets		
Interest in a subsidiary	<b>1,381,448</b>	1,381,448
Amounts due from subsidiaries	<b>1,121,090</b>	1,308,221
	<b>2,502,538</b>	2,689,669
Current assets		
Other receivables	<b>78,747</b>	1,120
Amounts due from subsidiaries	<b>1,938</b>	1,955
Financial asset at FVTPL	<b>43,156</b>	–
Pledged bank deposits	<b>31,427</b>	149,226
Bank balances and cash	<b>12,221</b>	4,644
	<b>167,489</b>	156,945
Current liabilities		
Other payables	<b>2,346</b>	3,373
Amounts due to directors	<b>2,089</b>	3,197
Amount due to a subsidiary	<b>81,217</b>	86,441
Bank borrowings	<b>27,683</b>	90,657
	<b>113,335</b>	183,668
Net current assets (liabilities)	<b>54,154</b>	(26,723)
Net assets	<b>2,556,692</b>	2,662,946
Capital and reserves		
Share capital	<b>51,350</b>	51,350
Reserves (Note 40)	<b>2,505,342</b>	2,611,596
Total equity	<b>2,556,692</b>	2,662,946

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 40. RESERVES OF THE COMPANY

	Share premium RMB'000	Special reserve RMB'000	Shares held for share award scheme RMB'000	Employee share-based compensation reserve RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
At 1 January 2019	1,983,889	148,696	(46,702)	4,691	(52,189)	2,038,385
Profit and total comprehensive income for the year	–	–	–	–	90,083	90,083
Issue of shares	482,730	–	–	–	–	482,730
Recognition of equity-settled share-based payments	–	–	–	398	–	398
Shares vested under share award scheme	–	–	6,512	(5,089)	(1,423)	–
At 31 December 2019	2,466,619	148,696	(40,190)	–	36,471	2,611,596
Loss and total comprehensive expense for the year	–	–	–	–	(78,565)	(78,565)
Dividend paid	–	–	–	–	(27,689)	(27,689)
At 31 December 2020	2,466,619	148,696	(40,190)	–	(69,783)	2,505,342

## 41. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ legal entities	Issued and paid up capital	Attributable equity interest of the Group		Principal country/place of operation	Principal activities
			2020 %	2019 %		
Extra Fame Group Limited*	BVI/Limited liability	USD10,438,413	100	100	Hong Kong	Investment holding
Wuxi Jiangnan Cable	PRC WFOE <sup>(1)</sup>	USD142,563,484	100	100	PRC	Manufacture of and trading in wires and cables
Jiangnan Cable (HK) Limited	Hong Kong/Limited liability	HK\$10	100	100	Hong Kong	Investment holding and trading in copper conductors
JNHB Trading Co., Ltd.	Hong Kong/Limited liability	HK\$100	100	100	Hong Kong	Trading in wires and cables

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 41. SUBSIDIARIES (continued)

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

Name of subsidiary	Place of incorporation/ legal entities	Issued and paid up capital	Attributable equity interest of the Group		Principal country/place of operation	Principal activities
			2020 %	2019 %		
Wuxi New Suneng Electric Power Science & Technology Co., Ltd.	PRC WFOE <sup>(1)</sup>	HK\$141,000,000	100	100	PRC	Manufacture of and trading in aluminium alloy and double capacity conductors
SA Asia Cable (Proprietary) Limited	South Africa/ Limited liability	RAND75,001,000	100	100	South Africa	Trading in wires and cables
Jiangsu Zengyang Investment Company Limited	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Investment holding
Jiangsu Zenghui Investment Co., Ltd.	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Investment holding
Zhongmei Cable	PRC WFOE <sup>(1)</sup>	RMB250,000,000	100	100	PRC	Manufacture of and trading in wires and cables
New Sun	Cayman Islands/ Limited liability	HK\$1	100	100	Hong Kong	Investment holding
New Sun Cable (HK) Company Limited	Hong Kong/Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Wuxi New Sun Cable Company Limited	PRC WFOE <sup>(1)</sup>	RMB208,000,000	100	100	PRC	Manufacture of and trading in wires and cables
Kai Da	Cayman Islands/ Limited liability	HK\$0.01	100	100	Hong Kong	Investment holding
Kai Da Cable (HK) Company Limited	Hong Kong/Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Jiangsu Kai Da Cable Company Limited	PRC WFOE <sup>(1)</sup>	RMB208,000,000	100	100	PRC	Manufacture of and trading in wires and cables

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 41. SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries at the end of the reporting period are as follows *(continued)*:

Name of subsidiary	Place of incorporation/ legal entities	Issued and paid up capital	Attributable equity interest of the Group		Principal country/place of operation	Principal activities
			2020 %	2019 %		
Jiangnan Power Assets Limited	BVI/Limited liability	USD1	100	100	Hong Kong	Investment holding
Jiangnan Power Assets (HK) Limited	Hong Kong/Limited liability	HK\$1	100	100	Hong Kong	Investment holding
Wuxi Changyi Electric Power Engineering Company Limited	PRC WFOE(1)	USD10,000,000	100	100	PRC	Engineering, procurement and construction of electric power related projects

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

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

None of the subsidiaries had issued any debt securities at the end of both years.

## FINANCIAL SUMMARY

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

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
<b>Results</b>					
Turnover	9,111,232	11,374,969	13,525,377	14,524,221	<b>13,335,190</b>
Cost of goods sold	(7,753,184)	(10,051,100)	(12,038,767)	(13,005,393)	<b>(11,910,484)</b>
Gross profit	1,358,048	1,323,869	1,486,610	1,518,828	<b>1,424,706</b>
Other income	84,925	57,099	84,999	95,245	<b>103,469</b>
Selling and distribution costs	(219,064)	(276,756)	(339,631)	(429,575)	<b>(560,134)</b>
Administrative expenses	(234,598)	(236,272)	(294,556)	(265,540)	<b>(283,047)</b>
Research and development costs	(32,205)	(35,387)	(57,543)	(62,735)	<b>(62,570)</b>
Other (losses) gains, net	(3,514)	(388,833)	(191,669)	9,022	<b>(38,331)</b>
Impairment losses under ECL model, net of reversal	(65,026)	(47,969)	(102,452)	(101,996)	<b>(92,979)</b>
Share of results of associates	(12,127)	1,324	(4,836)	(10,608)	<b>(273)</b>
Finance costs	(221,635)	(251,913)	(319,022)	(292,766)	<b>(271,922)</b>
Profit before taxation	654,804	145,162	261,900	459,875	<b>218,919</b>
Taxation	(124,930)	(41,250)	(79,479)	(76,652)	<b>(49,424)</b>
Profit for the year	529,874	103,912	182,421	383,223	<b>169,495</b>
<b>Assets and liabilities</b>					
Non-current assets	1,261,060	1,373,765	1,315,042	1,287,191	<b>1,324,254</b>
Current assets	11,204,561	12,060,102	13,248,862	14,292,289	<b>14,447,590</b>
Total assets	12,465,621	13,433,867	14,563,904	15,579,480	<b>15,771,844</b>
Current liabilities	7,096,600	8,072,819	9,069,052	9,223,459	<b>9,072,928</b>
Non-current liabilities	71,929	70,041	70,427	47,821	<b>259,683</b>
Total liabilities	7,168,529	8,142,860	9,139,479	9,271,280	<b>9,332,611</b>
Net assets	5,297,092	5,291,007	5,424,425	6,308,200	<b>6,439,233</b>