JIANGNAN GROUP LIMITED
江南集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1366)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 0.6% to approximately RMB9,111.2 million (2015: RMB9,167.3 million)
- Gross profit decreased by approximately 8.4% to approximately RMB1,358.0 million (2015:RMB1,481.8 million)
- Profit for the year attributable to owners of the Company decreased by approximately 24.4% to approximately RMB531.3 million (2015: RMB703.3 million)
- Basic earnings per share decreased by approximately 29.9% to RMB13.15 cents (2015: RMB18.76 cents)
- The Board recommended a final dividend of HK3.1 cents per share (2015: HK3.1 cents)

The board (the "Board") of directors (the "Directors") of Jiangnan Group Limited ("Jiangnan" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the audited comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Turnover	3	**9,111,232**	9,167,273
Cost of goods sold		**(7,753,184)**	(7,685,477)
Gross profit		**1,358,048**	1,481,796
Other income	4	**84,925**	73,823
Selling and distribution costs		**(219,064)**	(202,727)
Administrative expenses		**(234,598)**	(179,185)
Other expenses		**(32,205)**	(30,732)
Other losses	5	**(68,540)**	(29,000)
Share of loss of associates		**(12,127)**	(1,139)
Finance costs		**(221,635)**	(243,316)
Profit before taxation	6	**654,804**	869,520
Taxation	7	**(124,930)**	(166,259)
Profit for the year		**529,874**	703,261
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**1,523**	(6,257)
Total comprehensive income for the year		**531,397**	697,004
Profit (loss) for the year attributable to:			
Owners of the Company		**531,322**	703,261
Non-controlling interest		**(1,448)**	—
		529,874	703,261
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**532,845**	697,004
Non-controlling interest		**(1,448)**	—
		531,397	697,004
Earnings per share	9		
— Basic		**RMB13.15 cents**	RMB18.76 cents
— Diluted		**RMB13.12 cents**	RMB18.67 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	10	**843,708**	789,806
Land use rights		**258,516**	258,064
Goodwill		**109,606**	109,606
Interests in associates		**3,234**	14,267
Loan to an associate		**26,018**	19,773
Available-for-sale investment		**7,090**	7,090
Deferred tax assets		**3,890**	4,481
Deposits paid for acquisition of property, plant and equipment		**8,998**	31,088
		1,261,060	1,234,175
Current assets			
Inventories	11	**3,809,255**	3,269,050
Trade and other receivables	12	**3,797,387**	3,591,852
Pledged bank deposits		**1,425,454**	1,892,902
Bank balances and cash		**2,172,465**	2,131,286
		11,204,561	10,885,090
Current liabilities			
Trade and other payables	13	**3,422,206**	3,253,568
Amounts due to directors		**5,798**	5,593
Bank borrowings — due within one year	14	**3,565,361**	3,770,161
Taxation payable		**103,235**	116,470
Obligation under a finance lease		**—**	231
		7,096,600	7,146,023
Net current assets		**4,107,961**	3,739,067
Total assets less current liabilities		**5,369,021**	4,973,242
Non-current liabilities			
Obligation under a finance lease		**—**	160
Government grants		**3,001**	6,594
Deferred tax liabilities		**68,928**	70,563
		71,929	77,317
		5,297,092	4,895,925
Capital and reserves			
Share capital		**32,951**	32,951
Reserves		**5,263,589**	4,862,974
Equity attributable to owners of the Company		**5,296,540**	4,895,925
Non-controlling interest		**552**	—
Total equity		**5,297,092**	4,895,925

NOTES:

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate and ultimate holding company of the Company is Power Heritage Group Limited ("Power Heritage"), a company which is incorporated in the British Virgin Islands ("BVI").

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle

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

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 9	Financial instruments[2]
HKFRS 15	Revenue from contracts with customers and the related amendments[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKAS 7	Disclosure initiative[1]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[1]

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.
[4] Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 "Financial instruments"

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

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

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

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment, including that currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

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

The Directors anticipate that the application of HKFRS 15 in the future may enhance the disclosure and has no material impact on the amounts reported in the Group's consolidated financial statements.

HKFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB2,512,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the management complete a detailed review.

The Directors do not anticipate that the application of the other amendments to HKFRSs will have a material effect on the Group's financial performance and positions and/or the disclosures set out in these consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

The segment results represent the gross profit earned by each segment (segment revenue less segment cost of goods sold), which represents the internally generated financial information regularly reviewed by the Executive Directors. However, other income, other losses, other expenses, selling and distribution costs, administrative expenses, finance costs and share of loss of associates 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.

The information of segment results are as follows:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
— power cables	**6,414,183**	6,390,004
— wires and cables for electrical equipment	**1,697,625**	1,705,223
— bare wires	**511,190**	502,623
— special cables	**488,234**	569,423
	9,111,232	9,167,273
Cost of goods sold		
— power cables	**5,421,306**	5,310,637
— wires and cables for electrical equipment	**1,496,536**	1,480,965
— bare wires	**457,898**	432,015
— special cables	**377,444**	461,860
	7,753,184	7,685,477
Segment results		
— power cables	**992,877**	1,079,367
— wires and cables for electrical equipment	**201,089**	224,258
— bare wires	**53,292**	70,608
— special cables	**110,790**	107,563
	1,358,048	1,481,796

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

	2016	2015
	RMB'000	*RMB'000*
Reportable segment results	**1,358,048**	1,481,796
Unallocated income and expenses		
— Other income	**84,925**	73,823
— Selling and distribution costs	**(219,064)**	(202,727)
— Administrative expenses	**(234,598)**	(179,185)
— Other expenses	**(32,205)**	(30,732)
— Other losses	**(68,540)**	(29,000)
— Share of loss of associates	**(12,127)**	(1,139)
— Finance costs	**(221,635)**	(243,316)
Profit before taxation	**654,804**	869,520

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 People's Republic of China ("PRC") for both years. More than 90% of the Group's non-current assets were located in the PRC at 31 December 2016 and 2015.

Information about major customers

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

	2016	2015
	RMB'000	*RMB'000*
Customer A[1]	**1,142,578**	1,328,919

[1] Revenue from sales of wires and cables.

4. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Interest income	**61,486**	51,012
Government subsidies *(note)*	**18,782**	10,493
Others	**4,657**	12,318
	84,925	73,823

Note: Included in the amount are approximately RMB927,000 (2015: RMB927,000) and approximately RMB2,666,000 (2015: RMB2,666,000) representing deferred income on government subsidies recognised during the year in relation to capital expenditure on property, plant and equipment over the useful lives of the related assets and technological research and development projects over the projects' lives, respectively. The remaining amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage business development in the Yixing region and research and energy reduction activities conducted by the Group, and all of them had no specific conditions imposed.

5. OTHER LOSSES

	2016	2015
	RMB'000	*RMB'000*
Allowance for bad and doubtful debts	**65,026**	24,834
Loss on disposal of property, plant and equipment	**3,514**	68
Loss on fair value change of contingent consideration payables *(note)*	**—**	4,098
	68,540	29,000

Note:

On 29 April 2015, the Group acquired 100% equity interest in New Sun Investments Limited ("New Sun", together with its subsidiaries, "New Sun Group") from Nexus NS Limited, an independent third party, for a consideration of approximately RMB382,503,000 and also acquired 100% equity interest in Kai Da Investments Limited ("Kai Da", together with its subsidiaries, "Kai Da Group") from KDG Investment Limited, an independent third party, for a consideration of approximately RMB369,903,000, respectively.

Based on the sale and purchase agreement entered into by, among others, a subsidiary of the Company and Nexus NS Limited, the Group was required to pay a maximum amount of RMB34,979,000 if the audited net operating profit after tax of the wholly-owned subsidiary of New Sun in the PRC for the year ended 31 December 2015 in accordance with the applicable PRC accounting principles, was equal to or more than RMB51,719,700. The fair value of this obligation at the date of the acquisition based on the valuation report from an independent qualified professional valuer was RMB31,600,000.

Based on the sale and purchase agreement entered into by, among others, a subsidiary of the Company and KDG Investment Limited, the Group was required to pay a maximum amount of RMB29,719,000 if the audited net operating profit after tax of the wholly-owned subsidiary of Kai Da in the PRC, for the year ended 31 December 2015 in accordance with the applicable PRC accounting principles, was equal to or more than RMB49,380,000. The fair value of this obligation at the date of the acquisition based on the valuation report from an independent qualified professional valuer was RMB29,000,000.

Included in the amount for the year ended 31 December 2015 are loss on fair value change of contingent consideration payable of RMB3,379,000 from New Sun Group and loss on fair value change of contingent consideration payable of RMB719,000 from Kai Da Group. The contingent consideration payables are classified as liabilities under trade and other payables (note 13) and the fair value change between the date of the acquisition and 31 December 2015 is recognised in profit and loss.

6. PROFIT BEFORE TAXATION

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**4,955**	2,998
Other staff cost:		
Salaries and other benefits	**200,742**	198,082
Share award expenses	**8,335**	—
Contributions to retirement benefit scheme	**37,028**	25,364
Total staff costs	**251,060**	226,444
Less: Staff costs included in research and development costs	**(17,368)**	(16,349)
	233,692	210,095
Depreciation of property, plant and equipment	**80,334**	73,087
Less: Depreciation included in research and development costs	**(2,930)**	(2,848)
	77,404	70,239
Auditor's remuneration	**2,900**	3,483
Acquisition-related costs (included in other expenses)	**—**	176
Minimum lease payment under operating lease in respect of properties	**2,443**	3,098
Operating lease rentals in respect of land use rights	**6,871**	6,284
Research and development costs (included in other expenses)	**32,205**	30,556

7. TAXATION

	2016	2015
	RMB'000	*RMB'000*
The charge (credit) comprises:		
PRC income tax	**125,974**	180,152
Deferred taxation credit	**(1,044)**	(13,893)
Taxation charge for the year	**124,930**	166,259

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the PRC on Enterprise Income Tax ("EIT Law") and the Regulations of the PRC on the Implementation of the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onward. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable Co., Ltd. (無錫江南電纜有限公司) was endorsed as a High and New Technology Enterprise on 4 March 2009 (renewed on 6 July 2015) and was entitled to and was charged income tax in the PRC at a reduced income tax rate of 15% till next renewal in 2018. Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) was also entitled to and was charged income tax in the PRC at a reduced income tax rate of 15% till next renewal in 2017.

Dividends distributed by a PRC entity to foreign investors out of its profits generated for 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. According to the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China-HK TA), a Hong Kong resident company shall be entitled to a preferential tax rate of 5% when receiving dividends from its PRC subsidiaries.

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

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

8. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2016 Interim dividend — nil (2015: 2015 Interim dividend HK2.5 cents per share)	**—**	83,387
2015 Final dividend — HK3.1 cents (2015: 2014 Final dividend of HK3.7 cents) per share	**109,482**	111,285
	109,482	194,672

Subsequent to the end of the reporting period, a final dividend of HK3.1 cents per share in respect of the year ended 31 December 2016 (2015: HK3.1 cents) has been proposed by the Directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

9. 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:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to the owners of the Company)	**531,322**	703,261
	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of calculation of basic earnings per share	**4,041,507**	3,749,256
Effect of dilutive potential ordinary shares:		
Warrants	**—**	17,587
Shares granted under the share award scheme	**7,289**	—
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**4,048,796**	3,766,843

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

For the year ended 31 December 2015, the weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share has been adjusted for the issue of warrants that took place on 23 April 2014. As at 31 December 2016, all the warrants have expired.

10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred the following capital expenditures on property, plant and equipment:

	2016	2015
	RMB'000	*RMB'000*
Buildings	**12,245**	—
Plant and machinery	**20,362**	18,976
Motor vehicles	**2,394**	4,875
Furniture, fixtures and equipment	**2,454**	722
Construction in progress	**102,264**	35,776
	139,719	60,349

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

At 31 December 2016, the Group pledged certain of its buildings and machinery with carrying value of approximately RMB183,708,000 and approximately RMB58,476,000, respectively, (2015: RMB209,650,000 and RMB97,442,000, respectively) to certain banks to secure credit facilities granted to the Group.

11. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**41,096**	42,641
Work in progress	**2,469,336**	2,294,023
Finished goods	**1,298,823**	932,386
	3,809,255	3,269,050

12. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables, net	**3,204,785**	3,121,978
Bills receivables	**278,509**	282,927
	3,483,294	3,404,905
Current portion of land use rights	**6,921**	6,772
Deposits paid to suppliers	**100,418**	52,054
Prepayments	**26,648**	28,010
Staff advances	**4,284**	4,648
Tender deposits	**101,167**	63,147
Value-added tax receivables	**6,387**	2,478
Other receivables	**68,268**	29,838
	3,797,387	3,591,852

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

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

	2016	2015
	RMB'000	*RMB'000*
Age		
0 to 90 days	**1,811,887**	1,982,375
91 to 180 days	**674,564**	659,752
181 to 365 days	**550,467**	488,725
Over 365 days	**446,376**	274,053
	3,483,294	3,404,905

13. TRADE AND OTHER PAYABLES

	2016 *RMB'000*	2015 *RMB'000*
Trade payables	**1,098,679**	820,216
Bills payables	**1,454,793**	1,756,141
	2,553,472	2,576,357
Payroll and welfare accruals	**82,062**	108,660
Receipts in advances from customers	**533,696**	314,473
Cash consideration payables	**66,000**	66,000
Contingent consideration payables	**64,698**	64,698
Construction work payables	**—**	13,257
Other tax payables	**27,004**	22,312
Other deposits	**3,191**	944
Other payables and accruals	**92,083**	86,867
	3,422,206	3,253,568

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

	2016 *RMB'000*	2015 *RMB'000*
Age		
0 to 90 days	**1,917,128**	2,295,705
91 to 180 days	**574,835**	222,658
181 to 365 days	**23,610**	49,444
Over 1 year	**37,899**	8,550
	2,553,472	2,576,357

14. BANK BORROWINGS — DUE WITHIN ONE YEAR

	2016 *RMB'000*	2015 *RMB'000*
Secured	**726,649**	1,000,519
Secured and guaranteed by independent third parties	**305,000**	400,000
Unsecured	**1,068,850**	627,403
Unsecured and guaranteed by independent third parties	**1,464,862**	1,742,239
	3,565,361	3,770,161

15. CAPITAL COMMITMENT

	2016 *RMB'000*	2015 *RMB'000*
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**18,130**	5,504

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB9,111.2 million, representing a slight decrease of approximately 0.6% as compared with that in 2015, and profit attributable to owners of the Company for the year of approximately RMB531.3 million, representing a decrease of approximately 24.4% as compared with that in 2015. The Group's gross profit margin for the year ended 31 December 2016 decreased to approximately 14.9% (2015: 16.2%). Basic earnings per share for the year under review was RMB13.15 cents (2015: RMB18.76 cents), representing a decrease of approximately 29.9%.

Market review

The year of 2016 was meant to be an extraordinary year with frequent black swan events, including Brexit, Donald Trump's unexpected election as the U.S. president, and the turbulent political situations in the Middle East and Eastern Europe. These situations not only added extra uncertainties to the global political and financial fields, but also negatively affected the macroeconomic environment. Although China's economic performance turned out to be better than expected at the end of 2016 and there was a year-end rebound in copper price, copper price remained weak during the year under review due to the soft demand in the industrial and manufacturing sectors. The average price of copper on the London Metal Exchange decreased by approximately 11.5% from approximately US$5,494.5 per tonne in 2015 to approximately US$4,862.6 per tonne in 2016. The average price of aluminum fell by approximately 15.6% from approximately US$1,664.7 per tonne in 2015 to approximately US$1,405.8 per tonne in 2016. As the Group prices its products on a cost-plus basis, the decrease in raw material prices has put the Group's product prices under pressure, resulting in a slightly lower income for 2016 as compared with that in 2015.

Business Review

According to the data released by the National Bureau of Statistics, China experienced the slowest rate of growth in its gross domestic product ("GDP") since 1990 in 2016, i.e. its GDP grew by only 6.7% year-on-year, which dropped slightly as compared with that in the previous year. During 2016, the macroeconomic environment remained unstable, prices of raw and auxiliary materials (in particular copper and aluminum) declined, a catastrophic flood disaster struck in China, and the new Administrative Regulations for Overloaded Transportation Vehicles on Highways were promulgated in China in 2016, which significantly increased the costs of the Group for transporting its products over long distance in China. All these unfavourable factors exposed enterprises to unprecedented risks and challenges, which also adversely affected the performance of the Group and its peers. Survival of the fittest has become a new trend in the wires and cables manufacturing industry. Amidst such unsettling operating environment, the Group sought for stable development both internally and externally. Apart from being able to produce a wide range of products, the Group had added an extra-high voltage ("EHV") cable production line to capture the rising market demand for EHV cables with the intention to improve the Group's overall gross margin. Externally, the Group targeted to strengthen its cooperation with quality state-owned enterprises, such as State Grid Corporation of China ("SGCC"), China Southern Power Grid Co., Ltd. and the five power generation groups of China to minimise its credit risk and to ensure sustainable growth of its business. On the other hand, the Group had also been actively positioning and developing new business in its industry chain, aiming to diversify the Group's services and products offering and to enhance the Group's gross profit.

Turnover and Gross Profit Margin of the Products

	Turnover			**Gross Profit Margin**		
	2016	2015	% change	**2016**	2015	change
	RMB'000	*RMB'000*				
Power cables	**6,414,183**	6,390,004	0.4%	**15.5%**	16.9%	-1.4%
Wires and cables for electrical equipment	**1,697,625**	1,705,223	-0.4%	**11.8%**	13.2%	-1.4%
Bare wires	**511,190**	502,623	1.7%	**10.4%**	14.0%	-3.6%
Special cables	**488,234**	569,423	-14.3%	**22.7%**	18.9%	3.8%
TOTAL	**9,111,232**	9,167,273	-0.6%	**14.9%**	16.2%	-1.3%

Turnover

Power cable products — 70.4% of total turnover

The development of electric power and power grids is crucial to the social and economic developments in China. As the Chinese government is committed to achieving steady economic growth and improving the people's livelihood, the pace of power grid construction in China had not been affected by the sluggish economic environment. SGCC has invested approximately RMB497.7 billion in power grid construction in 2016 in which approximately RMB171.8 billion was in rural power grid upgrade, each of which represents a record-breaking investment amount. Driven by positive investment sentiment, domestic cable demand in the PRC remained stable in 2016. Sales volume of the Group's power cable products increased by approximately 5.2% to approximately 211,192 km (2015: 200,720 km). Turnover of power cables accounted for approximately 70.4% of the total turnover of the Group. However, as power cables are priced on a cost-plus basis by the Group and copper price has declined, the average product price for the year under review decreased by approximately 4.6% as compared to that in 2015. Despite the increase in sales volume of power cables in the year under review, turnover from these products was dragged down by the decrease in their selling price. For the year ended 31 December 2016, turnover from power cable products amounted to approximately RMB6,414.2 million, representing a slight increase of approximately 0.4% only over that in 2015 (2015: RMB6,390.0 million). Gross profit for the year under review decreased to approximately RMB992.9 million (2015: RMB1,079.4 million), whereas gross profit margin decreased to approximately 15.5% (2015: 16.9%).

Wires and cables for electrical equipment products — 18.6% of total turnover

In 2016, turnover from wires and cables for electrical equipment slightly decreased by approximately 0.4% to approximately RMB1,697.6 million (2015: RMB1,705.2 million). Sales volume of wires and cables for electrical equipment increased by approximately 1.0% from approximately 1,041,035 km in 2015 to approximately 1,050,998 km in 2016. The average price of these products decreased by approximately 1.4% from approximately RMB1,638 per km in 2015 to approximately RMB1,615 per km in 2016, mainly due to the decrease in average copper price in 2016. Gross profit for the year under review decreased to approximately RMB201.1 million (2015: RMB224.3 million), whereas gross profit margin decreased to approximately 11.8% (2015: 13.2%).

Bare wire products — 5.6% of total turnover

In order to alleviate the uneven distribution of electricity and the worsening air pollution problems in China, the Chinese government has commenced to operate the "Four AC and Four DC (四交四直)" ultra-high voltage ("UHV") project, an important part of the National Plan of Action for the Prevention of Air Pollution (國家大氣污染防治行動計劃), and commenced the construction of "Three AC and Seven DC (三交七直)" UHV project as at 31 December 2016, effectively securing electricity supply and improving the ecological environment. However, the promulgation of the new Administrative Regulations for Overloaded Transportation Vehicles on Highways in the PRC in 2016 has caused long distance transportation costs to increase significantly. This increase in transportation costs has resulted in a negative impact on the profitability of the Group's products, especially those with a low average selling price, such as bare wires. In view of this, the Group has resorted to selective tendering in order to control its transportation costs.

For the year ended 31 December 2016, turnover of bare wires increased slightly by approximately 1.7% to approximately RMB511.2 million (2015: RMB502.6 million). Sales volume of bare wires decreased by approximately 2.4% from approximately 40,973 tonnes for the year ended 31 December 2015 to approximately 39,987 tonnes for the year ended 31 December 2016. The average price of bare wire products increased by approximately 4.2% to approximately RMB12,783.9 per tonne (2015: RMB12,267.2 per tonne). Gross profit decreased by approximately 24.5% to approximately RMB53.3 million (2015: RMB70.6 million) and gross profit margin decreased by approximately 3.6% to approximately 10.4% (2015: 14.0%), due to the significant increase in the sales of 220kV~500kV high voltage wires (a type of bare wire products) that had a relatively low gross profit margin in the second half of 2016.

Special cable products — 5.4% of total turnover

Under the recovery of the property market in the PRC, the demand for rubber cables (a type of special cables) for buildings increased. The sales volume of special cables increased by approximately 68.2% to approximately 77,752 km (2015: 46,216 km). However, the average selling price of special cables decreased by approximately 49.0% from approximately RMB12,321 per km for the year ended 31 December 2015 to approximately RMB6,279 per km for the year ended 31 December 2016. This decrease in average selling price was mainly due to the decline in copper price and the drop in the sales of special cables with a higher average selling price to clients in the mining, shipbuilding and renewable energy industries. However, gross profit margin increased by approximately 3.8% to approximately 22.7% (2015: 18.9%) as a result of the increase in the sales of flexible fireproof cables with an average gross profit margin of approximately 26.0%.

Turnover by Geographical Markets

The PRC market remained the Group's key market in 2016. Sales in the PRC market decreased by approximately 1.6% to approximately RMB8,723.2 million (2015: RMB8,860.6 million), which accounted for approximately 95.7% (2015: 96.7%) of the Group's total turnover, and such decrease was primarily due to the decrease in copper price in 2016.

Revenue contributed by overseas markets increased by approximately RMB81.3 million or approximately 26.5% to approximately RMB388.0 million in 2016 (2015: RMB306.7 million). This increase was mainly attributable to the material increase in sales in Singapore and South Africa, partly alleviated by the decrease in sales in Vietnam during the year under review. During the year ended 31 December 2016, the Group made sales in two new overseas markets, namely Cambodia and Brunei, with turnover of approximately RMB1.0 million and RMB19,000, respectively.

Progressive Expansion in Overseas Markets

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

On 8 December 2015, a subsidiary of the Company entered into a strategic cooperation agreement with China Gezhouba Group International Engineering Co., Ltd. (中國葛洲壩集團國際工程有限公司) ("Gezhouba Engineering") to jointly explore and develop the international markets, focusing on the expansion and cooperation in EPC projects and the sale of cables driven by EPC projects. On 7 April 2016, the same subsidiary of the Company and Gezhouba Engineering further entered into a supplemental strategic cooperation agreement, pursuant to which Gezhouba Engineering would become a distributor of the Group to sell and promote cable products of the Group through its overseas branches to allow further expansion of the global sales networks of the Group. The Group will establish a joint venture with Gezhouba Engineering to carry out EPC projects in countries like Kenya in Africa and the preliminary work of such projects have been completed.

Following the implementation of the "One Belt, One Road" initiative by the Chinese government, the Group has dedicated efforts to expanding into markets in the Southeast Asian region such as Fiji, Cambodia and Pakistan and the Group has reached preliminary cooperation intention with local potential customers in these markets. The Group has also started strategic cooperation with construction companies in Hong Kong to enhance its brand recognition in Hong Kong.

Cost of Goods Sold

Cost of goods sold is composed of costs of raw materials, production costs and direct labour costs. Costs of raw materials accounted for approximately 95.8% of cost of goods sold in 2016 (2015: 96.0%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 78.8% of cost of goods sold in 2016 (2015: 79.4%). Direct labour costs increased gently and accounted for approximately 1.3% of total cost of goods sold in 2016 (2015: 1.1%). The remaining balance of approximately 2.9% of the cost of goods sold in 2016 (2015: 2.9%) was attributable to production costs which mainly consist 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.

Selling and Distribution Costs

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

The selling and distribution costs increased by approximately RMB16.3 million, or approximately 8.1%, from approximately RMB202.7 million for the year ended 31 December 2015 to approximately RMB219.1 million for the year ended 31 December 2016. This increase in selling and distribution costs was mainly due to the increase in transportation costs for delivery of goods to customers. As a result, selling and distribution costs as a percentage of turnover increased from approximately 2.2% for the year ended 31 December 2015 to approximately 2.4% for the year ended 31 December 2016.

Administrative Expenses

Administrative expenses increased by approximately RMB55.4 million, or approximately 30.9%, from approximately RMB179.2 million for the year ended 31 December 2015 to approximately RMB234.6 million for the year ended 31 December 2016, mainly due to the increase in staff costs and travelling and entertainment expenses incurred by management of the Group for business trips, as well as the recognition of equity-settled share-based payments in respect of shares granted to certain employees and management of the Group on 28 January 2016 pursuant to the share award scheme of the Company. The administrative expenses as a percentage of turnover was approximately 2.6% (2015: 2.0%).

Other Expenses

Other expenses, mainly composed of research and development costs, increased by approximately 4.8% from approximately RMB30.7 million for the year ended 31 December 2015 to approximately RMB32.2 million for the year ended 31 December 2016. This increase was mainly resulted from the increase in spending incurred by the Group on research and development of new products and technology during the year ended 31 December 2016, compared to that in 2015.

Other Losses

Other losses are composed of bad debt expense, loss on disposal of property, plant and equipment and loss on fair value change of contingent consideration payables. Other losses increased by approximately 136.3% from approximately RMB29.0 million in 2015 to approximately RMB68.5 million in 2016. This significant increase in other losses was mainly due to the significant increase in the provision of doubtful debts for long outstanding receivables and the increase in the loss on disposal of property, plant and equipment due to the replacement of higher efficiency machines during the year ended 31 December 2016.

Finance Costs

Finance costs decreased by approximately 8.9% from approximately RMB243.3 million for the year ended 31 December 2015 to approximately RMB221.6 million for the year ended 31 December 2016, mainly attributed to the decrease in interest expenses incurred by the Group on bank borrowings due to the cut in the RMB benchmark loan interest rates for financial institutions by the People's Bank of China and the decline in bank borrowings outstanding during 2016.

Profit For The Year Attributable to Owners of The Company

Profit attributable to owners of the Company for the year ended 31 December 2016 decreased by approximately 24.4% from approximately RMB703.3 million for the year ended 31 December 2015 to approximately RMB531.3 million. The decrease was mainly attributable to the decrease in gross profit, increase in daily operating expenses such as transportation costs, staff costs and entertainment expenses, increase in other losses and recognition of equity-settled share-based payments in respect of shares granted to selected officers and employees of the Group on 28 January 2016 pursuant to the share award scheme of the Company.

Financial Position and Liquidity

As at 31 December 2016, total assets of the Group amounted to approximately RMB12,465.6 million (31 December 2015: RMB12,119.3 million), representing an increase of approximately 2.9%.

Non-current assets increased by approximately 2.2% from approximately RMB1,234.2 million as at 31 December 2015 to approximately RMB1,261.1 million as at 31 December 2016. The increase was mainly due to the increase in property, plant and equipment and land use rights resulted from the replacement of higher efficiency machines, addition of machineries and land use rights for power cable production lines, and installation of photovoltaic power supply systems for self electricity consumption by the Group, which had been partly set off by the decrease in the value of the Group's interests in associates caused by the significant loss in one of the Group's associates during the year under review and the decrease in deposits paid for acquisition of property, plant and equipment as at 31 December 2016.

Current assets increased by approximately 2.9% from approximately RMB10,885.1 million as at 31 December 2015 to approximately RMB11,204.6 million as at 31 December 2016, mainly due to the increase in inventories not yet delivered as at the end of 2016.

Total interest-bearing bank borrowings decreased by approximately 5.4% from approximately RMB3,770.2 million as at 31 December 2015 to approximately RMB3,565.4 million as at 31 December 2016. Of the Group's total bank loans outstanding as at 31 December 2016, approximately 94.8% (2015: 92.7%) of short-term borrowings were made by the Group's subsidiaries in China. These loans were not guaranteed by the Company.

Equity attributable to the owners of the Company was approximately RMB5,296.5 million as at 31 December 2016, which was approximately 8.2% higher than the same as at 31 December 2015 of approximately RMB4,895.9 million. The increase in equity attributable to the owners of the Company was mainly attributable to the contribution of the profit for the year under review, net of distribution of dividends during the year under review.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash and pledged bank deposits) of approximately negative RMB32.6 million over total equity of approximately RMB5,297.1 million as at 31 December 2016, increased from approximately -5.2% as at 31 December 2015 to approximately -0.6% as at 31 December 2016. The increase was due to the increase in unsecured bank borrowings as at 31 December 2016.

During the year ended 31 December 2016, the Group's borrowings were mainly denominated in RMB and carried interest rates at a premium to the People's Bank of China's interest rates. As its revenue was mainly denominated in RMB and its major expenses were incurred either in RMB or Hong Kong Dollars during the year under review, the Group faced relatively low currency risk.

As at 31 December 2016, the Group pledged certain of its buildings and machinery with an aggregate carrying value of approximately RMB183.7 million and approximately RMB58.5 million respectively (31 December 2015: RMB209.7 million and RMB97.4 million respectively) to certain banks to secure credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

Use of Net Proceeds Received 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 (or equivalent to approximately RMB370.0 million), most of which had been utilised in the manner as set out in the prospectus of the Company dated 10 April 2012. As at the date of this announcement, approximately HK$115.0 million in aggregate of the net proceeds had been fully utilised for setting up production facilities for aluminium alloy and double capacity conductors, approximately HK$97.0 mi1lion in aggregate of the net proceeds had been fully utilised for setting up a manufacturing facility in South Africa, approximately HK$74.0 million of the net proceeds had been fully utilised for the upgrade and expansion of existing production facilities and enhancement of research and development capabilities, approximately HK$14.1 million of the net proceeds had been fully utilised for the acquisition of Jiangsu Zengyang Investment Company Limited in 2013, and out of approximately HK$148.0 million of the net proceeds which was allocated for the expansion of the Group's production facilities for high, extra-high and ultra-high voltage cables, only approximately HK$82.2 million had been utilised.

Dividend

Subsequent to the end of the reporting period, the Board recommended a final dividend ("Final Dividend") of HK3.1 cents per share for the year ended 31 December 2016 (2015: HK3.1 cents) to the shareholders which is subject to shareholders' approval at the forthcoming annual general meeting ("AGM") to be held on 19 May 2017.

Subject to the approval of the shareholders of the Company at the AGM, it is expected that the Final Dividend will be paid on or around 31 July 2017 to the shareholders of the Company whose names appear in the register of members of the Company on 21 July 2017.

Closure of Register of Members

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 16 May 2017 to 19 May 2017, both dates inclusive, during which period no transfer of shares of the Company will be effected. For the purpose of determining the identity of shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 15 May 2017.

For the purpose of determining the entitlement to the proposed Final Dividend for the year ended 31 December 2016, the register of members of the Company will be closed from 18 July 2017 to 21 July 2017, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for entitlement to the proposed Final Dividend for the year ended 31 December 2016, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 17 July 2017.

Employees and Remuneration

As at 31 December 2016, the Group had a total of 3,626 employees. Remuneration packages offered to employees are in line with industry practices and will be reviewed annually. The award of bonuses is discretionary and based on the performance of, firstly, the individual employee, and secondly, the Group.

The Board adopted a share award scheme on 9 September 2015 as an incentive to recognise the contributions by the employees, executives, officers and directors of the Group, with a view to retain them for the continuing operation and development of the Group and to attract suitable personnel for further development of the Group. On 28 January 2016, the Board resolved to grant an aggregate of 35,300,000 shares ("Awarded Shares") in the share capital of the Company to 21 selected officers and employees ("Selected Employees") of the Group pursuant to the share award scheme, of whom (i) Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei and Mr. Hao Minghui are Executive Directors, and (ii) the remaining 17 Selected Employees are senior management of the Group. 25% of the Awarded Shares granted to the Selected Employees were vested on 1 April 2016, and the rest shall be vested in equal proportions (i.e. 25% of the Awarded Shares) on each of 1 April 2017, 1 April 2018 and 1 April 2019 respectively subject to the fulfillment of certain performance targets.

Property, Plant and Equipment

The Group's property, plant and equipment increased from approximately RMB789.8 million as at 31 December 2015 to approximately RMB843.7 million as at 31 December 2016, representing an increase of approximately 6.8%. This increase was mainly attributed to the replacement of higher efficiency machines, addition of machineries for power cable production lines and installation of photovoltaic power supply systems for self electricity consumption by the Group.

Outlook and Prospects

The National Development and Reform Commission and the National Energy Administration of China officially promulgated the 13th Five Year Plan for Power Development ("Plan") at the end of 2016, adopting the policy to accelerate the transformation and development of the power industry, and establishing goals for certain aspects, including the improvement and promotion of the development of power grids, energy conservation and emission reduction.

Under the Plan, the upgrade and renovation of the distribution network, and promotion of the construction of smart grids were proposed. In the next five years, the Chinese government will step up its efforts in the construction and renovation of urban and rural power grids, with an aim to transforming them into modern distribution networks that are able to meet the demand for smart power system and support the construction of a smart power system that is highly efficient. Meanwhile, the Notice on Regulated Commencement of Pilot Reform of Power Increment and Distribution Business (關於規範開展增量配電業務改革試點的通知) ("Notice") has confirmed 105 projects, such as Yangqing Smart Distribution Network, as the first batch of pilot projects for the reform of the power increment and distribution business. The market believes that the Notice will effectively attract the private sectors to invest in the power increment and distribution networks. It is expected that the total investments of the 105 pilot projects will amount to RMB50 billion to RMB100 billion, which will promote rapid growth in the investments of smart power grids. As a cornerstone for the improvement of the people's livelihood, the development of power grids in China has progressed steadily and the demand for wires and cables has shown no sign of abating. Amid the intense merger and acquisition activities in the industry, the Group will seek to establish a strong foothold and capture the increasing demand for wires and cables by consolidating its production equipment, introducing machineries from overseas and enhancing its capacity. As the drop of copper price has posed pressure on its product price, the Group will strive to sell and produce products with higher gross profit margin and higher technical requirements, such as flexible fire proof cables, aluminum-alloy cables and nuclear power cables, with a view to enhance its profitability and maintain its leading position in the industry.

In addition, in order to maintain a balanced resource allocation by transmitting power from areas with abundant energy supply to other regions, during the 13th Five Year Plan period, the Chinese government will also construct electric power transmission channels for the Power Transmission from West to East Project (西電東送) by adopting UHV electric power transmission and regular electric power transmission technology, which will expand the construction scale by 130 million GW and bring the total construction scale to approximately 270 million GW. Although the market is still in demand for bare wires for long distance power transmission, the promulgation of the new Administrative Regulations for Overloaded Transportation Vehicles on Highways in the PRC in 2016 has resulted in the increase in costs of long distance transportation; hence, the Group will continue to adopt selective tendering to control its costs and maximise its profit.

Meanwhile, in light of the worsening pollution problems, the Chinese government will put greater efforts on the development of renewable energy. In order to optimise the distribution of wind power over the country, the Chinese government will increase the nationally installed capacity of wind power to over 210 million GW, and will install photovoltaic stations according to the principle of decentralised development and local consumption. In the future, the Chinese government will also rely on power transmission channels to push forward trans-regional consumption of renewable energy in the three Northern regions, namely Northeast China, Northern China and Northwest China. Moreover, the Chinese government will actively develop hydroelectric power and explore the hydroelectric power resources in Southwestern China to promote the construction of a large-scale hydroelectric power base. All these measures in relation to the construction of facilities for renewable energy generation will require a large amount of special cables. The Group will closely monitor the development of the market to actively expand its market share of this product.

The fluctuation of copper price, the changes in political landscape as well as macroeconomic and trading environment will add uncertainties to the operating environment of the Group in 2017. Apart from maintaining the high quality of its products as always, the Group will also join hands with large state-owned enterprises, and will exercise extra caution when selecting customers to cooperate with so as to ensure that the Group will continue to maintain its sound financial condition. At the same time, the Group will leverage on its local and overseas EPC projects to expand the scope of its services to cable manufacturing in its supply chain in the downstream, striving to make steady progress in the ever-changing environment through its diversified products, businesses and sales channels.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. With effect from 30 May 2016, Mr. Rui Fubin resigned as the chairman of the Company ("Chairman"), an Executive Director and the chairman of the corporate governance committee ("Corporate Governance Committee") of the Company due to his retirement, while Mr. Chu Hui, an Executive Director, the chief executive officer of the Company and a member of the Corporate Governance Committee was appointed as the Chairman and the chairman of the Corporate Governance Committee. As a result, the Company has not had a separate chairman and chief executive officer since 30 May 2016, with Mr. Chu Hui performing both these two roles. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired as all major decisions are made in consultation with the Board members and the senior management of the Company. The current arrangement will enable the Company to make and implement decisions promptly and efficiently. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

Save as disclosed above, the Company has complied with all the applicable code provisions of the CG Code during the year ended 31 December 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by Directors on terms not less exacting than the required standard set out 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 2016.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal in the securities of the Company at any time when they possess inside information in relation to those securities. No incident of non-compliance of the Model Code by the relevant officers and employees during the year ended 31 December 2016 was noted by the Company.

AUDIT COMMITTEE

The audit committee of the Board ("Audit Committee") has reviewed with management the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and has reviewed the audited consolidated annual financial statements of the Group for the year ended 31 December 2016.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE COMPANY AND OF THE STOCK EXCHANGE

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.jiangnangroup.com). The annual report for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

ACKNOWLEDGEMENT

The Chairman would like to take this opportunity to express his sincere gratitude to the shareholders, investors, business partners, customers and suppliers of the Group for their continuing support and to thank the Group's management team and all staff for their dedication and contribution in the past.

By order of the Board
Jiangnan Group Limited
Chu Hui
Chairman

Hong Kong, 16 March 2017

As at the date of this announcement, the Executive Directors are Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei and Mr. Hao Minghui, and the independent non-executive Directors are Mr. He Zhisong, Mr. Yang Rongkai and Mr. Poon Yick Pang Philip.