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 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 24.8% to approximately RMB11,375.0 million (2016: RMB9,111.2 million)
- Gross profit decreased by approximately 2.5% to approximately RMB1,323.9 million (2016: RMB1,358.0 million)
- Profit for the year attributable to owners of the Company decreased by approximately 80.4% to approximately RMB103.9 million (2016: RMB531.3 million)
- Basic earnings per share decreased by approximately 80.5% to RMB2.57 cents (2016: RMB13.15 cents)
- The Board does not recommend declaration and payment of any final dividend (2016: HK3.1 cents)

* *For identification purposes only*

The board ("Board") of directors ("Directors") of Jiangnan Group Limited ("Jiangnan" or the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2017 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 2017

	Notes	2017 RMB'000	2016 RMB'000
Turnover	3	**11,374,969**	9,111,232
Cost of goods sold		**(10,051,100)**	(7,753,184)
Gross profit		**1,323,869**	1,358,048
Other income	4	**57,099**	84,925
Selling and distribution costs		**(276,756)**	(219,064)
Administrative expenses		**(242,258)**	(234,598)
Research and development costs		**(35,387)**	(32,205)
Other losses	5	**(430,816)**	(68,540)
Share of results of associates		**1,324**	(12,127)
Finance costs		**(251,913)**	(221,635)
Profit before taxation	6	**145,162**	654,804
Taxation	7	**(41,250)**	(124,930)
Profit for the year		**103,912**	529,874
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**1,352**	1,523
Total comprehensive income for the year		**105,264**	531,397
Profit (loss) for the year attributable to:			
Owners of the Company		**103,912**	531,322
Non-controlling interest		**–**	(1,448)
		103,912	529,874
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**105,264**	532,845
Non-controlling interest		**–**	(1,448)
		105,264	531,397
Earnings per share	9		
— Basic		**RMB2.57 cents**	RMB13.15 cents
— Diluted		**RMB2.57 cents**	RMB13.12 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	10	**865,430**	843,708
Land use rights		**302,932**	258,516
Deposits paid for acquisition of property, plant and equipment		**18,539**	8,998
Goodwill		**109,606**	109,606
Interests in associates		**3,111**	3,234
Loan to an associate		**63,756**	26,018
Available-for-sale investment		**7,090**	7,090
Deferred tax assets		**3,301**	3,890
		1,373,765	1,261,060
Current assets			
Inventories	11	**4,002,379**	3,809,255
Trade and other receivables	12	**4,850,751**	3,797,387
Pledged bank deposits		**1,727,213**	1,425,454
Bank balances and cash		**1,479,759**	2,172,465
		12,060,102	11,204,561
Current liabilities			
Trade and other payables	13	**4,656,385**	3,422,206
Amounts due to directors		**5,236**	5,798
Bank borrowings — due within one year	14	**3,332,080**	3,565,361
Taxation payable		**79,118**	103,235
		8,072,819	7,096,600
Net current assets		**3,987,283**	4,107,961
Total assets less current liabilities		**5,361,048**	5,369,021
Non-current liabilities			
Government grants		**741**	3,001
Deferred tax liabilities		**69,300**	68,928
		70,041	71,929
Net assets		**5,291,007**	5,297,092
Capital and reserves			
Share capital		**32,951**	32,951
Reserves		**5,257,504**	5,263,589
Equity attributable to owners of the Company		**5,290,455**	5,296,540
Non-controlling interest		**552**	552
Total equity		**5,291,007**	5,297,092

NOTES:

1. GENERAL

The Company was 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 ("Stock Exchange"). Prior to 14 December 2017, the immediate holding company and the ultimate holding company of the Company were both Power Heritage Group Limited ("Power Heritage"), a company which was incorporated in the British Virgin Islands ("BVI"). On 14 December 2017, 無錫光普投資有限公司, a company which was established in the People's Republic of China ("PRC"), became the holding company of Power Heritage, and in turn, the ultimate holding company of the Company.

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 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. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on the application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ended 31 December 2017.

Except for the above, the HKICPA has issued a number of new and amendments to HKFRSs and interpretations which are not yet effective for the year and have not been early adopted by the Group.

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 the 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, selling and distribution costs, administrative expenses, research and development costs, other losses, 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.

The information of segment results are as follows:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
— power cables	**7,693,970**	6,414,183
— wires and cables for electrical equipment	**2,256,538**	1,697,625
— bare wires	**640,005**	511,190
— special cables	**784,456**	488,234
	11,374,969	9,111,232
Cost of goods sold		
— power cables	**6,829,204**	5,421,306
— wires and cables for electrical equipment	**2,035,558**	1,496,536
— bare wires	**577,609**	457,898
— special cables	**608,729**	377,444
	10,051,100	7,753,184
Segment results		
— power cables	**864,766**	992,877
— wires and cables for electrical equipment	**220,980**	201,089
— bare wires	**62,396**	53,292
— special cables	**175,727**	110,790
	1,323,869	1,358,048

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

	2017	2016
	RMB'000	*RMB'000*
Reportable segment results	**1,323,869**	1,358,048
Unallocated income and expenses		
— Other income	**57,099**	84,925
— Selling and distribution costs	**(276,756)**	(219,064)
— Administrative expenses	**(242,258)**	(234,598)
— Research and development costs	**(35,387)**	(32,205)
— Other losses	**(430,816)**	(68,540)
— Share of results of associates	**1,324**	(12,127)
— Finance costs	**(251,913)**	(221,635)
Profit before taxation	**145,162**	654,804

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 2017 and 2016.

Information about major customers

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

	2017	2016
	RMB'000	*RMB'000*
Customer A[1]	**N/A[2]**	1,142,578

[1] The customer purchased goods from all segments of the Group during both years.
[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Interest income	**40,669**	61,486
Government subsidies *(note)*	**12,445**	18,782
Others	**3,985**	4,657
	57,099	84,925

Note: Included in the amount are approximately RMB927,000 (2016: RMB927,000) and approximately RMB1,333,000 (2016: 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

	2017	2016
	RMB'000	*RMB'000*
Write-down of inventories *(note)*	**382,245**	–
Allowance for bad and doubtful debts	**47,969**	65,026
Loss on disposal of property, plant and equipment	**602**	3,514
	430,816	68,540

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

6. PROFIT BEFORE TAXATION

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,185**	4,955
Other staff costs:		
Salaries and other benefits	**206,678**	200,742
Share award expenses	**164**	8,335
Contributions to retirement benefit scheme	**40,414**	37,028
Total staff costs	**249,441**	251,060
Less: Staff costs included in research and development costs	**(25,064)**	(17,368)
	224,377	233,692
Depreciation of property, plant and equipment	**91,670**	80,334
Less: Depreciation included in research and development costs	**(5,736)**	(2,930)
	85,934	77,404
Auditor's remuneration	**2,862**	2,900
Minimum lease payments under operating leases in respect of properties	**4,257**	2,443
Operating lease rentals in respect of land use rights	**7,449**	6,871

7. TAXATION

	2017	2016
	RMB'000	*RMB'000*
The charge (credit) comprises:		
Current tax		
PRC income tax	**39,277**	125,974
South Africa income tax	**1,012**	–
	40,289	125,974
Net deferred taxation charge (credit)	**961**	(1,044)
Taxation charge for the year	**41,250**	124,930

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) and Jiangsu Zhongmei Cable Group Co., Ltd. (江蘇中煤電纜有限公司) were endorsed as a High and New Technology Enterprise on 4 March 2009 (renewed on 6 July 2015) and 2 September 2014 (renewed on 7 December 2017) respectively, and were entitled to and were charged income tax in the PRC at a reduced income tax rate of 15% till next renewal in 2018 and 2020 respectively.

Dividends distributed by a PRC entity to foreign investors out of its profits generated 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.

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

	2017	2016
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2016 Final dividend — HK3.1 cents		
(2016: 2015 Final dividend of HK3.1 cents) per share	**110,636**	109,482

The Board does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: HK3.1 cents).

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:

	2017	2016
	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)	**103,912**	531,322

	2017	2016
	'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	**4,038,757**	4,041,507
Effect of dilutive potential ordinary shares:		
Shares granted under the share award scheme	**4,324**	7,289
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**4,043,081**	4,048,796

For the years ended 31 December 2017 and 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.

10. PROPERTY, PLANT AND EQUIPMENT

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

	2017	2016
	RMB'000	*RMB'000*
Buildings	**293**	12,245
Plant and machinery	**31,631**	20,362
Motor vehicles	**1,980**	2,394
Furniture, fixtures and equipment	**4,060**	2,454
Construction in progress	**76,113**	102,264
	114,077	139,719

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

At 31 December 2017, the Group pledged certain of its buildings and machinery with carrying values of approximately RMB194,934,000 and approximately RMB29,656,000, respectively, (2016: RMB183,708,000 and RMB58,476,000, respectively) to certain banks to secure credit facilities granted to the Group.

11. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**46,973**	41,096
Work in progress	**2,139,684**	2,469,336
Finished goods	**1,815,722**	1,298,823
	4,002,379	3,809,255

12. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables, net	**4,127,898**	3,204,785
Bills receivables	**333,449**	278,509
	4,461,347	3,483,294
Current portion of land use rights	**7,980**	6,921
Deposits paid to suppliers	**178,474**	100,418
Prepayments	**28,548**	26,648
Staff advances	**5,698**	4,284
Tender deposits	**102,233**	101,167
Value-added tax receivables	**5,581**	6,387
Other receivables	**60,890**	68,268
	4,850,751	3,797,387

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 periods:

	2017	2016
	RMB'000	*RMB'000*
Age		
0 to 90 days	**2,300,057**	1,811,887
91 to 180 days	**738,555**	674,564
181 to 365 days	**640,013**	550,467
Over 365 days	**782,722**	446,376
	4,461,347	3,483,294

13. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,378,870**	1,098,679
Bills payables	**2,265,320**	1,454,793
	3,644,190	2,553,472
Payroll and welfare accruals	**97,200**	82,062
Receipts in advances from customers	**618,401**	533,696
Consideration payables *(note a)*	**130,698**	130,698
Loans advanced from staff *(note b)*	**78,313**	30,000
Other tax payables	**22,040**	27,004
Other deposits	**440**	3,191
Other payables and accruals	**65,103**	62,083
	4,656,385	3,422,206

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 and 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 and bills payables based on the invoice date at the end of the reporting periods:

	2017	2016
	RMB'000	*RMB'000*
Age		
0 to 90 days	**1,272,184**	1,917,128
91 to 180 days	**1,307,058**	574,835
181 to 365 days	**976,131**	23,610
Over 1 year	**88,817**	37,899
	3,644,190	2,553,472

14. BANK BORROWINGS — DUE WITHIN ONE YEAR

	2017	2016
	RMB'000	*RMB'000*
Secured	**893,388**	726,649
Secured and guaranteed by independent third parties	**250,000**	305,000
Unsecured	**1,087,470**	1,068,850
Unsecured and guaranteed by independent third parties	**1,101,222**	1,464,862
	3,332,080	3,565,361

15. CAPITAL COMMITMENTS

	2017	2016
	RMB'000	*RMB'000*
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**11,743**	18,130

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

For the year ended 31 December 2017, the Group recorded revenue of approximately RMB11,375.0 million, representing an increase of approximately 24.8% as compared with that for the year ended 31 December 2016, and profit attributable to owners of the Company for the year under review of approximately RMB103.9 million, representing a decrease of approximately 80.4% as compared with that for the year ended 31 December 2016. The decrease in the profit attributable to owners of the Company for the year under review was mainly due to (i) the increase in cost of goods sold from approximately RMB7,753.2 million for the year ended 31 December 2016 to approximately RMB10,051.1 million for the year under review which, in turn, lowered the gross profit for the year under review to approximately RMB1,323.9 million (approximately RMB1,358.0 million for the year ended 31 December 2016); and (ii) write-down of inventories of approximately RMB382.2 million as a result of the changes in market requirements of certain affected inventories identified by the Group which were disassembled during the year under review (such write-down was absent during the year ended 31 December 2016). Such decrease was also attributable to (1) the decrease in the gross profit margin of power cables from approximately 15.5% for the year ended 31 December 2016 to approximately 11.2% for the year under review as a result of (a) more orders of low-rated voltage power cables which carried a lower gross profit margin being shifted by customers from smaller manufacturers to the Group due to the changes in market requirements; (b) the increase in the consumption of raw materials as a result of changes in market requirements during the year under review; and (c) the discounts offered to customers during the year under review on certain products, the quality of which was slightly affected by the flood in 2016; and (2) the increase in the aggregate of the selling and distribution costs, administrative expenses and finance costs from approximately RMB675.3 million for the year ended 31 December 2016 to approximately RMB770.9 million for the year under review. The Group's gross profit margin for the year ended 31 December 2017 decreased to approximately 11.6% (year ended 31 December 2016: 14.9%). Basic earnings per share for the year under review was RMB2.57 cents (year ended 31 December 2016: RMB13.15 cents), representing a decrease of approximately 80.5%.

Market review

The year of 2017 was meant to be an extraordinary year with frequent black swan events, including the refugee crisis in Europe, the crisis in the Middle East, and the "America First" policy in the United States of America. These events not only added uncertainties to the global political and financial fields, but also negatively affected the macroeconomic environment. On the domestic side, the drivers of the economy in the PRC have shifted from labour-intensive industries to middle-end and high-end industries as a result of policies and initiatives implemented by the Chinese government, including the "Supply-side Reform", the "Belt and Road" Initiative, and the "Made in China 2025" Program. The national economy has stabilised and shown such good signs, as its economic vitality, momentum, and potential continued to manifest, while its stability, coordination, and sustainability have strengthened significantly. The average price of copper on the London Metal Exchange Limited increased by approximately 26.7% from approximately US$4,862.6 per tonne in 2016 to approximately US$6,162.8 per tonne in 2017. The average price of aluminum increased by approximately

9.8% from approximately US$1,555.2 per tonne in 2016 to US$1,708.1 per tonne in 2017. As the Group prices its products on a cost-plus basis, the increase in raw material prices has driven up the Group's product prices, resulting in an increase in revenue for the year under review as compared with that for the year ended 31 December 2016.

Business Review

According to the data released by the National Bureau of Statistics, China's gross domestic product grew by only 6.9% year-on-year, which has increased slightly as compared with that in the year ended 31 December 2016. During 2017, while the macroeconomic environment recovered and prices of raw and auxiliary materials (in particular copper and aluminum) picked up, a catastrophic flood disaster which struck China in 2016 with damaging effects being carried over to 2017, and the incident in March 2017 which involved government investigations on the "problem cables" produced by Shaanxi Aokai Cable Co., Ltd. and used in the Xi'an Metro Line 3 project of Shaanxi Province ("Aokai Incident"), had resulted in reforms being carried out in the cable industry in the PRC.

During 2017, market requirements changed after the Aokai Incident which led to additional costs of production being incurred by the Group, including the increase in material costs and direct labour costs. The increase in the Group's cost of goods sold together with the discounts offered to customers on certain products, the quality of which was slightly affected by the flood in 2016, have reduced the gross profit margin of the Group significantly. As a result of the changes in market requirements, a significant write-down of inventories amounting to approximately RMB382.2 million was incurred by the Group during the year under review. All these unfavourable factors have exposed enterprises in the cable industry in China to unprecedented risks and challenges, which have also adversely affected the financial performance of the Group and its peers. Survival of the fittest has become a new trend in the wires and cables manufacturing industry in China. Amidst such unsettling operating environment, the Group had sought for stable development both internally and externally. Apart from being able to produce a wide range of products, the Group had acquired a piece of land and a manufacturing plant during the year under review to increase its production capacity. 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. In addition, the Group had also been actively positioning and developing new business in its industry chain, aiming to diversify the Group's service and product offering and to enhance the Group's gross profit.

Turnover and Gross Profit Margin of the Products

	Turnover			Gross Profit Margin		
	2017	2016	change	**2017**	2016	change
	RMB'000	*RMB'000*				
Power cables	**7,693,970**	6,414,183	20.0%	**11.2%**	15.5%	–4.3%
Wires and cables for electrical equipment	**2,256,538**	1,697,625	32.9%	**9.8%**	11.8%	–2.0%
Bare wires	**640,005**	511,190	25.2%	**9.7%**	10.4%	–0.7%
Special cables	**784,456**	488,234	60.7%	**22.4%**	22.7%	–0.3%
TOTAL	**11,374,969**	9,111,232	24.8%	**11.6%**	14.9%	–3.3%

Turnover

Power cable products — 67.7% of total turnover

Driven by the increase in copper price, the changes in market requirements due to the Aokai Incident which were in favor of larger manufacturers that were able to produce quality products, and the sizable investments in power grid construction made by SGCC of approximately RMB485.4 billion in 2017, the growth in the Group's power cable products for the year under review was strong. Sales volume of the Group's power cable products for the year ended 31 December 2017 increased significantly by approximately 15.2% to approximately 243,374 km (year ended 31 December 2016: 211,192 km) and the turnover of power cables accounted for approximately 67.7% of the total turnover of the Group for the year under review. Power cables are priced on a cost-plus basis by the Group. Notwithstanding that copper price has increased significantly during the year under review, the average product price for the year under review only increased by approximately 4.1% as compared to that in 2016. It was because (i) more orders of low-rated voltage power cables which carried lower selling prices and gross profit margin were shifted by customers from smaller manufacturers to the Group as a result of the changes in market requirements; and (ii) discounts were offered to customers during the year under review on certain products, the quality of which was slightly affected by the flood in 2016.

For the year ended 31 December 2017, turnover from power cable products amounted to approximately RMB7,694.0 million, representing an increase of approximately 20.0% over that in 2016 (year ended 31 December 2016: RMB6,414.2 million). Gross profit for the year under review decreased to approximately RMB864.8 million (year ended 31 December 2016: RMB992.9 million), whereas gross profit margin decreased to approximately 11.2% (year ended 31 December 2016: 15.5%) due to the changes in market requirements which led to (i) an increase in the consumption of raw materials during the production process, and hence increased the cost of goods sold; and (ii) an increase in the sales of low-rated voltage power cables which carried a lower gross profit margin due to orders shifted by customers from smaller manufacturers to the Group.

Wires and cables for electrical equipment products — 19.8% of total turnover

For the year ended 31 December 2017, turnover from wires and cables for electrical equipment increased significantly by approximately 32.9% to approximately RMB2,256.5 million (year ended 31 December 2016: RMB1,697.6 million). Sales volume of wires and cables for electrical equipment increased by approximately 13.7% from approximately 1,050,998 km for the year ended 31 December 2016 to approximately 1,194,835 km for the year ended 31 December 2017. The average selling price of wires and cables for electrical equipment products increased by approximately 17.0% from approximately RMB1,615 per km for the year ended 31 December 2016 to approximately RMB1,889 per km for the year ended 31 December 2017, mainly due to the increase in the average copper price in 2017. Gross profit for the year under review increased to approximately RMB221.0 million (year ended 31 December 2016: RMB201.1 million), whereas gross profit margin decreased to approximately 9.8% (year ended 31 December 2016: 11.8%).

Bare wire products — 5.6% of total turnover

For the year ended 31 December 2017, turnover of bare wires increased significantly by approximately 25.2% to approximately RMB640.0 million (year ended 31 December 2016: RMB511.2 million). Sales volume of bare wires increased significantly by approximately 32.3% from approximately 39,987 tonnes for the year ended 31 December 2016 to approximately 52,897 tonnes for the year ended 31 December 2017. Due to the increase in sales as a result of orders being shifted by customers from smaller manufacturers to the Group for producing lower rated voltage bare wires which carried lower selling prices, the average price of bare wire products decreased by approximately 5.4% to approximately RMB12,099.1 per tonne during the year under review (year ended 31 December 2016: RMB12,783.9 per tonne). During the year under review, gross profit increased by approximately 17.1% to approximately RMB62.4 million (year ended 31 December 2016: RMB53.3 million), whereas gross profit margin decreased by approximately 0.7% to approximately 9.7% (year ended 31 December 2016: 10.4%).

Special cable products — 6.9% of total turnover

Turnover of special cables in the year under review amounted to approximately RMB784.5 million, representing an increase of approximately 60.7% (year ended 31 December 2016: RMB488.2 million). However, the sales volume of special cables for the year ended 31 December 2017 decreased by approximately 19.6% to approximately 62,500 km (year ended 31 December 2016: 77,752 km). The average selling price of special cables increased significantly by approximately 99.9% from approximately RMB6,279 per km for the year ended 31 December 2016 to approximately RMB12,551 per km for the year ended 31 December 2017. This increase in average selling price was mainly due to the increase in copper price and the increase in the sales of mining cables which carried a higher average selling price during the year under review. Gross profit margin decreased slightly by approximately 0.3% to approximately 22.4% during the year under review (year ended 31 December 2016: 22.7%).

Turnover by Geographical Markets

The PRC remained the Group's key market during the year under review. Turnover in the PRC market for the year ended 31 December 2017 increased by approximately 26.8% to approximately RMB11,065.4 million (year ended 31 December 2016: RMB8,723.2 million), which accounted for approximately 97.3% (year ended 31 December 2016: 95.7%) of the Group's total turnover, and such increase was primarily due to the improvement in the supply-demand structure of the PRC market as a result of the supply-side structural reform carried out by the Chinese government.

Turnover contributed by overseas markets decreased by approximately RMB78.4 million or approximately 20.2% to approximately RMB309.6 million for the year ended 31 December 2017 (year ended 31 December 2016: RMB388.0 million). This decrease was mainly attributable to the material decrease in the turnover generated from South Africa and Vietnam, which was partly offset by the increase in the turnover generated from Brunei during the year under review.

Progressive Expansion in Overseas Markets

Apart from manufacturing and selling wire and cable products, the Group has also been 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 minimising the impacts brought by fluctuations in raw material prices and strengthening 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.

Following the implementation of the "Belt and Road" Initiative by the Chinese government, the Group has dedicated efforts to expanding into markets in the Asia Pacific region, such as Bangladesh, Fiji, Cambodia and Pakistan. 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 which was composed of costs of raw materials, production costs and direct labour costs, increased by approximately 29.6% to approximately RMB10,051.1 million during the year under review (year ended 31 December 2016: RMB7,753.2 million). Costs of raw materials accounted for approximately 95.9% of cost of goods sold in 2017 (2016: 95.8%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 79.5% of cost of goods sold in 2017 (2016: 78.8%). Direct labour costs remained at approximately 1.3% of total cost of goods sold in 2017 (2016: 1.3%). The remaining balance of approximately 2.8% of the cost of goods sold in 2017 (2016: 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

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

The selling and distribution costs increased by approximately RMB57.7 million, or approximately 26.3%, from approximately RMB219.1 million for the year ended 31 December 2016 to approximately RMB276.8 million for the year ended 31 December 2017. This increase in selling and distribution costs which was in line with the increase in the turnover of the Group, was mainly due to the increase in (i) the marketing expenses incurred for the promotion of the Group's products; (ii) the costs incurred in bidding projects; and (iii) the transportation expenses caused by the "Administrative Regulation on Overloaded Transportation Vehicles on Highways" promulgated by the Chinese government in September 2016. Selling and distribution costs as a percentage of turnover remained stable at approximately 2.4% for the years ended 31 December 2017 and 2016.

Administrative Expenses

Administrative expenses increased by approximately RMB7.7 million, or approximately 3.3%, from approximately RMB234.6 million for the year ended 31 December 2016 to approximately RMB242.3 million for the year ended 31 December 2017, mainly due to (i) the increase in travelling expenses incurred for management site visits in relation to potential projects; and (ii) the increase in the staff costs. The administrative expenses as a percentage of turnover decreased from approximately 2.6% for the year ended 31 December 2016 to approximately 2.1% for the year ended 31 December 2017.

Research and Development Costs

Research and development costs increased by approximately 9.9% from approximately RMB32.2 million for the year ended 31 December 2016 to approximately RMB35.4 million for the year ended 31 December 2017. 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 2017, compared to that incurred in the year ended 31 December 2016.

Other Losses

Other losses were composed of bad debt expense, loss on disposal of property, plant and equipment and write-down of inventories. Other losses increased dramatically by approximately 528.6% from approximately RMB68.5 million in the year ended 31 December 2016 to approximately RMB430.8 million in the year under review. This significant increase in other losses was mainly due to the one-off write-down of inventories during the year ended 31 December 2017 (which was absent during the year ended 31 December 2016), that was partly alleviated by the decrease in the provision of bad debts for long outstanding receivables for the year ended 31 December 2017, as compared with that for the year ended 31 December 2016.

Finance Costs

Finance costs increased by approximately 13.7% from approximately RMB221.6 million for the year ended 31 December 2016 to approximately RMB251.9 million for the year ended 31 December 2017, which was mainly attributed to the increase in the use of interest-bearing bank bills in financing the Group's operations during the year under review. Finance costs as a percentage of turnover reduced to approximately 2.2% for the year ended 31 December 2017 from approximately 2.4% for the year ended 31 December 2016.

Profit For The Year Attributable to Owners of The Company

Profit attributable to owners of the Company for the year ended 31 December 2017 decreased by approximately 80.4% from approximately RMB531.3 million for the year ended 31 December 2016 to approximately RMB103.9 million. The decrease was mainly attributable to (i) the decrease in gross profit for the year under review as compared with that for the year ended 31 December 2016, despite turnover for the year under review having increased by approximately 24.8% as compared with that for the year ended 31 December 2016; (ii) inventories being written-down during the year ended 31 December 2017, which were absent during the year ended 31 December 2016; and (iii) the increase in the aggregate of the selling and distribution costs, administrative expenses and finance costs during the year under review, as compared with the aggregate of those for the year ended 31 December 2016.

Financial Position and Liquidity

As at 31 December 2017, total assets of the Group amounted to approximately RMB13,433.9 million (as at 31 December 2016: RMB12,465.6 million), representing an increase of approximately 7.8%.

Non-current assets increased by approximately 8.9% from approximately RMB1,261.1 million as at 31 December 2016 to approximately RMB1,373.8 million as at 31 December 2017. The increase was mainly due to the increase in deposits paid for the acquisition of property, plant and equipment, the acquisition of land use rights and the increase in a loan advanced to an associate during the year under review.

Current assets increased by approximately 7.6% from approximately RMB11,204.6 million as at 31 December 2016 to approximately RMB12,060.1 million as at 31 December 2017, which was mainly due to (i) the increase in trade and bill receivables outstanding; and (ii) the increase in inventories due to the increase in goods not yet delivered, both being a result of the increase in the turnover of the Group for the year under review.

As at 31 December 2017, the Group had bank balances and cash of approximately RMB1,479.8 million (as at 31 December 2016: RMB2,172.5 million), and pledged bank deposits of approximately RMB1,727.2 million (as at 31 December 2016: RMB1,425.5 million).

Total bank borrowings decreased by approximately 6.5% from approximately RMB3,565.4 million as at 31 December 2016 to approximately RMB3,332.1 million as at 31 December 2017. Of the Group's total bank loans outstanding as at 31 December 2017, approximately 90.5% (as at 31 December 2016: 94.8%) of short-term borrowings were made by the Group's subsidiaries in the PRC. These loans were not guaranteed by the Company.

Equity attributable to the owners of the Company was approximately RMB5,290.5 million as at 31 December 2017, which was approximately 0.1% lower than the same as at 31 December 2016 of approximately RMB5,296.5 million. The decrease in equity attributable to the owners of the Company was mainly attributable to the decrease in accumulated profits for the year under review as a result of the amount of the final dividend distributed to the shareholders of the Company for the year ended 31 December 2016 being in excess of the profit attributable to owners of the Company for 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 RMB125.1 million over total equity of approximately RMB5,291.0 million as at 31 December 2017, increased from approximately –0.6% as at 31 December 2016 to approximately 2.4% as at 31 December 2017. The increase in the net-debt-to-equity ratio as compared with that as at 31 December 2016, was mainly due to the decrease in bank balances and cash as at 31 December 2017.

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

As at 31 December 2017, the Group has pledged certain of its buildings and machinery with a carrying value of approximately RMB194.9 million and approximately RMB29.7 million, respectively (as at 31 December 2016: RMB183.7 million and RMB58.5 million, respectively) to certain banks to secure credit facilities granted to the Group.

During the year ended 31 December 2017, the Group's borrowings were mainly denominated in RMB and carried interest at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China. As at 31 December 2017, 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 either in RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the year under review.

Contingent Liabilities

As at 31 December 2017, 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), which were intended to be applied in the manner consistent with that as disclosed in the prospectus of the Company dated 10 April 2012 had mostly been utilised. As at the date of this announcement, approximately HK$115.0 million in aggregate of the net proceeds allocated to set up production facilities for aluminium alloy and double capacity conductors had been fully utilised, approximately HK$97.0 mi1lion in aggregate of the net proceeds allocated to set up a manufacturing facility in South Africa had been fully utilised, approximately HK$74.0 million of the net proceeds allocated for the upgrade and expansion of existing production facilities and enhancement of research and development capabilities had been fully utilised, approximately HK$14.1 million of the net proceeds allocated for acquisitions had been fully utilised in the acquisition of Jiangsu Zengyang Investment Company Limited in 2013, and out of approximately HK$148.0 million of the net proceeds which was allocated for the expansion of the Group's production facilities for high and extra-high voltage cables, only approximately HK$82.2 million had been utilised.

Dividend

The Board does not recommend any final dividend for the year ended 31 December 2017 (2016: HK3.1 cents) to be paid to the shareholders of the Company.

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 24 May 2018 to 29 May 2018, 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 of the Company 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 23 May 2018.

Employees and Remuneration

As at 31 December 2017, the Group had a total of 3,559 employees. Remuneration packages offered to employees of the Group are in line with industry practices and are 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 retaining them for the continuing operation and development of the Group and to attracting 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 (i.e. 8,825,000 Shares) granted to the Selected Employees were vested on 1 April 2016, and out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2017, only 500,000 Awarded Shares were vested then. The rest of the Awarded Shares shall be vested in equal proportions (i.e. 25% of the Awarded Shares) on each of 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 RMB843.7 million as at 31 December 2016 to approximately RMB865.4 million as at 31 December 2017, representing an increase of approximately 2.6%. This increase was mainly attributed to the acquisition of new workshops and the addition of buildings and machineries for setting up new production lines by the Group during the year under review.

Outlook and Prospects

In 2017, the cable industry was adversely affected by the Aokai Incident which was a one-off incident. It is expected that 2018 will be a year of turnaround for the cable industry, leaving behind the adverse financial impacts resulted from the Aokai Incident. It is also expected that the Aokai Incident would be a catalyst to speed up the pace of consolidation for the cable industry which would benefit the Group in the long run.

In 2018, the Group will face significant development opportunities, as investments in infrastructure and heavyweight equipment will continue to grow in China under the "13th Five-Year Plan" and the "Made in China 2025" Program. Energy conservation and environmental protection will be the focus of economic developments in the PRC, which will lead to the extensive use of ultra-high-voltage conductors that the Group is capable to produce, which are mainly characterised by efficient performance with lower energy loss in power transmission.

In order to meet the continuous growth in demand of electricity in China, especially in the urban areas, it is inevitable that high-voltage power cables and extra-high-voltage power cables with such advantages, including enormous capacity, great reliability, and close to zero maintenance will gradually be used to replace lower-rated voltage power cables in the power distribution networks.

During the "13th Five-Year Plan" period, the total investments to be made in the construction of power distribution networks in the PRC are expected to reach more than RMB 1.7 trillion. According to the "13th Five-Year Plan", by 2020, the high-voltage power distribution lines will reach a total length of 1.01 million kilometers, while the medium-voltage power distribution lines will reach a total length 4.04 million kilometers. The "13th Five-Year Plan" also formulates the reconstruction of rural power distribution networks with a total investment amount exceeding RMB700 billion. The planned investments in the power grids have been evidenced by the total amount of investments made by SGCC in grid networks in 2016 and 2017 of RMB496.4 billion and RMB485.4 billion respectively. The planned investments of SGCC in grid networks in the PRC in 2018 will be RMB498.9 billion, representing an increase of approximately 2.8% as compared with those in 2017.

During the "13th Five-Year Plan" period, the total investments in transportation in the PRC will reach RMB 15 trillion, of which RMB3.5 trillion will be fixed investments in railways, RMB7.8 trillion in highways, RMB650 billion in civil aviation, and RMB500 billion in water transportation. By the end of the "13th Five-Year Plan" period, there will be more than 3,000 km of urban rail lines and 23,000 km of new railway lines put into operation. It is expected the investments in urban rail lines will reach RMB1.7 trillion to RMB2 trillion and the investments in railways will be not less than RMB3.8 trillion by the end of the "13th Five-Year Plan" period. All of the above will trigger an increase in the procurement of various cable products in China, which will benefit the development of the Group.

In 2018, China overseas exhibitions will experience a period of fast growth. These exhibitions will increasingly drive economic growth in the PRC. According to the report delivered by the General Party Secretary Xi Jinping during the 19th National Congress of the Communist Party of China, the Chinese government shall closely focus on developing an open economy and expanding foreign trade. With the "Belt and Road" Initiative as a priority, the Chinese government shall develop new models and forms of trade, while turning China into a strong trade economy. The "Belt and Road" Initiative will bring a historic opportunity to the transformation of the cable industry, as the production capacities of cable products and their output volumes will be boosted, while international cooperation between enterprises will be increasingly encouraged. In this regard, the Group will seize the opportunities arising from both the construction, reformation and upgrade of national grids, and the growing infrastructure projects to improve the Group's turnover and market share by enriching the Group's product mix and enhancing the quality of its products. At the same time, the Group will leverage on the experience of its business partners to strengthen its business development and cooperation in EPC projects, further upstream and downstream business expansions and international market development, and seek a new wave of fast development.

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

For the year ended 31 December 2017, 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. The Company has not had a separate chairman and 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.

Save as disclosed above, the Company has complied with all the applicable code provisions of the CG Code during the year ended 31 December 2017.

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 2017.

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 2017 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 2017.

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 2017 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 2017 containing all the information required by the Listing Rules will be despatched to the 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 of the Company, 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, 29 March 2018

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.