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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 18.9% to approximately RMB13,525.4 million (2017: RMB11,375.0 million)
- Gross profit increased by approximately 12.3% to approximately RMB1,486.6 million (2017: RMB1,323.9 million)
- Profit for the year attributable to owners of the Company increased by approximately 75.6% to approximately RMB182.4 million (2017: RMB103.9 million)
- Basic earnings per share increased by approximately 75.9% to RMB4.52 cents (2017: RMB2.57 cents)
- The Board does not recommend declaration and payment of any final dividend (2017: nil)

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 2018 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 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Turnover	*3*	**13,525,377**	11,374,969
Cost of goods sold		**(12,038,767)**	(10,051,100)
Gross profit		**1,486,610**	1,323,869
Other income	*4*	**84,999**	57,099
Selling and distribution costs		**(339,631)**	(276,756)
Administrative expenses		**(294,556)**	(236,272)
Research and development costs		**(57,543)**	(35,387)
Other losses	*5*	**(191,669)**	(388,833)
Impairment losses on financial assets	*6*	**(102,452)**	(47,969)
Share of results of associates		**(4,836)**	1,324
Finance costs		**(319,022)**	(251,913)
Profit before taxation	*7*	**261,900**	145,162
Taxation	*8*	**(79,479)**	(41,250)
Profit for the year attributable to owners of the Company		**182,421**	103,912
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		**(1,088)**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**(5,998)**	1,352
Total comprehensive income for the year attributable to owners of the Company		**175,335**	105,264
Earnings per share	*10*		
— Basic		**RMB4.52 cents**	RMB2.57 cents
— Diluted		**RMB4.52 cents**	RMB2.57 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	11	**879,127**	865,430
Land use rights		**301,601**	302,932
Deposits paid for acquisition of property, plant and equipment		**11,870**	18,539
Goodwill		**54,775**	109,606
Interests in associates		**2,997**	3,111
Loan to an associate		**57,700**	63,756
Equity instrument at fair value through other comprehensive income		**4,262**	–
Available-for-sale investment		**–**	7,090
Deferred tax assets		**2,710**	3,301
		1,315,042	1,373,765
Current assets			
Inventories	12	**3,208,237**	4,002,379
Trade and other receivables	13	**5,379,213**	4,850,751
Pledged bank deposits		**2,068,956**	1,727,213
Bank balances and cash		**2,592,456**	1,479,759
		13,248,862	12,060,102
Current liabilities			
Trade and other payables	14	**4,846,630**	4,656,385
Contract liabilities		**851,224**	–
Amounts due to directors		**4,877**	5,236
Bank borrowings — due within one year	15	**3,274,315**	3,332,080
Taxation payable		**92,006**	79,118
		9,069,052	8,072,819
Net current assets		**4,179,810**	3,987,283
Total assets less current liabilities		**5,494,852**	5,361,048
Non-current liabilities			
Government grants		**–**	741
Deferred tax liabilities		**70,427**	69,300
		70,427	70,041
Net assets		**5,424,425**	5,291,007
Capital and reserves			
Share capital		**32,951**	32,951
Reserves		**5,391,474**	5,257,504
Equity attributable to owners of the Company		**5,424,425**	5,290,455
Non-controlling interest		**–**	552
Total equity		**5,424,425**	5,291,007

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 Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The immediate holding company of the Company is Power Heritage Group Limited ("Power Heritage"), a company which was incorporated in the British Virgin Islands ("BVI") and the ultimate holding company of the Company is 無錫光普投資有限公司, a company which was established in the People's Republic of China ("PRC").

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")

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) -Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS "9 Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

HKFRS 15 "Revenue from Contracts with Customers"

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

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

Information about the Group's performance obligations and the accounting policies resulting from the application of HKFRS 15 is disclosed in the annual report of the Company for the year ended 31 December 2018 ("Annual Report").

Summary of effects arising from initial application of HKFRS 15

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

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

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

Note: As at 1 January 2018, receipts in advances from customers of approximately RMB618,401,000 in respect of considerations received from sales contracts previously included in trade and other payables were classified to contract liabilities.

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

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

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

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities; (2) the expected credit losses ("ECL") for financial assets; and (3) general hedge accounting.

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

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

Accounting policies resulting from the application of HKFRS 9 are disclosed in the Annual Report.

Summary of effects arising from initial application of HKFRS 9

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

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

Notes:

(a) AFS investment

From AFS investment to equity instrument at FVTOCI

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

(b) Impairment under ECL model

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

Geographical information

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

Information about major customers

The Group had no customers that contributed over 10% of the revenue of the Group for the years ended 31 December 2018 and 2017.

4. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income	**67,718**	40,669
Government subsidies	**12,507**	12,445
Others	**4,774**	3,985
	84,999	57,099

5. OTHER LOSSES

	2018	2017
	RMB'000	*RMB'000*
Write-down of inventories	**113,308**	382,245
Impairment loss recognised in respect of goodwill	**54,831**	–
Exchange loss	**22,671**	5,986
Loss on deregistration of a subsidiary	**748**	–
Loss on disposal of property, plant and equipment	**111**	602
	191,669	388,833

6. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018	2017
	RMB'000	*RMB'000*
Impairment losses on:		
Trade receivables	**60,479**	47,969
Other receivables	**41,973**	–
	102,452	47,969

7. PROFIT BEFORE TAXATION

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,653**	2,185
Other staff costs:		
Salaries and other benefits	**240,260**	206,678
Share award expenses	**1,417**	164
Contributions to retirement benefit scheme	**47,557**	40,414
Total staff costs	**291,887**	249,441
Less: Staff costs included in research and development costs	**(24,982)**	(25,064)
	266,905	224,377
Depreciation of property, plant and equipment	**98,278**	91,670
Less: Depreciation included in research and development costs	**(3,558)**	(5,736)
	94,720	85,934

8. TAXATION

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

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law ("EIT Law") of the PRC on Enterprise Income Tax ("EIT") and the Regulations of the PRC on the Implementation of the EIT Law, the tax rate of the PRC subsidiaries has been 25% from 1 January 2008 onward. Pursuant to the approval published on the website of the Yixing Provincial Commission of Science and Technology, Wuxi Jiangnan Cable 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 30 November 2018) and 2 September 2014 (renewed on 7 December 2017) respectively, and were entitled to and were charged income tax in the PRC at a reduced income tax rate of 15% till next renewal in 2021 and 2020 respectively.

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

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

9. DIVIDENDS

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

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

10. EARNINGS PER SHARE

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

	2018	2017
	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)	**182,421**	103,912

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

For the years ended 31 December 2018 and 2017, 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.

11. PROPERTY, PLANT AND EQUIPMENT

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

	2018	2017
	RMB'000	*RMB'000*
Buildings	**14,088**	293
Plant and machinery	**26,653**	31,631
Motor vehicles	**1,328**	1,980
Furniture, fixtures and equipment	**11,064**	4,060
Construction in progress	**60,911**	76,113
	114,044	114,077

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

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

12. INVENTORIES

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

13. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables, net	**4,415,793**	4,127,898
Bills receivables	**639,045**	333,449
	5,054,838	4,461,347

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:

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

14. TRADE PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**1,703,875**	1,378,870
Bills payables	**2,704,623**	2,265,320
	4,408,498	3,644,190

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:

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

15. BANK BORROWINGS — DUE WITHIN ONE YEAR

	2018	2017
	RMB'000	*RMB'000*
Secured	**717,082**	893,388
Secured and guaranteed by independent third parties	**330,000**	250,000
Unsecured	**1,167,233**	1,087,470
Unsecured and guaranteed by independent third parties	**1,060,000**	1,101,222
	3,274,315	3,332,080

16. CAPITAL COMMITMENTS

	2018	2017
	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	**22,640**	11,743

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

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

Market review

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

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

Business Review

As the incident in March 2017 involving "problem cables" produced by Shaanxi Aokai Cable Co., Ltd. which were used in the Xi'an Metro Line 3 project of the Shaanxi Province ("Problem Cable Incident") has continued to reverberate, the State Administration for Market Regulation and other management departments continued to step up their investigations on the wire and cable industry, thus achieving a normalised monitoring. Under immense pressure from such regulatory scrutiny, consolidation of the wire and cable industry has catalysed and further mergers and acquisitions in the industry will continue to thrive. In such a competitive industry, the Company has stood out and captured considerable opportunities by utilising its competitive advantages in terms of size, quality and brand, but the demand for quality by the customers which required the Group to consume more raw materials has put the Group under cost pressure in 2018. In addition, tougher requirements in respect of green development practices, such as energy conservation and emission reduction implemented by the government in China have, to a certain extent, given rise to the increase in the operating costs for enterprises, including the Group. For the year ended 31 December 2018, the increase in the Group's turnover, coupled with the decrease in write-down of inventories, has contributed to an increase in the profit attributable to the owners of the Company. Nonetheless, stringent market regulations, the tightening of credits by banks, as well as the new measurement requirements on impairment of trade and other receivables resulting from the initial application of the new accounting standard, HKFRS 9, all led to an increase in the Group's production costs, selling and distribution costs, finance costs, as well as an increase in the impairment losses on financial assets of the Group, which in turn repressed the growth of its net profits.

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

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

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

Turnover and Gross Profit Margin of the Products

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

Turnover

Power cable products — 70.0% of total turnover

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

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

Wires and cables for electrical equipment products — 18.8% of total turnover

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

Bare wire products — 3.2% of total turnover

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

Special cable products — 8.0% of total turnover

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

Turnover by Geographical Markets

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

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

Cost of Goods Sold

Cost of goods sold which was composed of the costs of raw materials, production costs and direct labour costs, increased by approximately 19.8% to approximately RMB12,038.8 million during the year under review (year ended 31 December 2017: RMB10,051.1 million). The costs of raw materials accounted for approximately 96.3% of cost of goods sold for the year under review (year ended 31 December 2017: 95.9%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 80.1% of the cost of goods sold for the year under review on aggregate basis (year ended 31 December 2017: 79.5%). Direct labour costs remained at approximately 1.2% of the total cost of goods sold for the year under review (year ended 31 December 2017: 1.3%). The remaining balance of approximately 2.5% of the cost of goods sold for the year under review (year ended 31 December 2017: 2.8%) was attributable to production costs which mainly consisted of depreciation of equipment used in the production process, maintenance of production lines and equipment, moulding of parts and components and other miscellaneous production-related costs.

Selling and Distribution Costs

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

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

Administrative Expenses

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

Research and Development Costs

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

Other Losses

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

Impairment Losses on Financial Assets

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

Finance Costs

Finance costs increased by approximately 26.6% from approximately RMB251.9 million for the year ended 31 December 2017 to approximately RMB319.0 million for the year under review, which was mainly attributed to the increase in the use of interest-bearing bank and commercial bills in financing the Group's operations and the increase in the interest rates of the Group's bank borrowings during the year under review. Finance costs as a percentage of turnover increased to approximately 2.4% for the year under review from approximately 2.2% for the year ended 31 December 2017.

Profit For The Year Attributable to Owners of The Company

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

Financial Position and Liquidity

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

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

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

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

Total interest-bearing bank borrowings decreased by approximately 1.7% from approximately RMB3,332.1 million as at 31 December 2017 to approximately RMB3,274.3 million as at 31 December 2018. Of the Group's total bank loans outstanding as at 31 December 2018, approximately 94.1% (31 December 2017: 90.5%) of short-term borrowings were made by the Company's subsidiaries in the PRC. These loans were not guaranteed by the Company.

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

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

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

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

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

Contingent Liabilities

As at 31 December 2018, neither the Group nor the Company had any significant contingent liabilities (31 December 2017: nil).

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$91.0 million had been utilised.

Dividend

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

Closure of Register of Members

For the purpose of determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 27 May 2019 ("AGM"), the register of members of the Company will be closed from 22 May 2019 to 27 May 2019, both dates inclusive, during which period no transfer of shares of the Company will be effected. For the purpose of determining the identity of the 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 21 May 2019.

Employees and Remuneration

As at 31 December 2018, the Group had a total of 3,184 (31 December 2017: 3,559) employees. Remuneration packages offered to the employees of the Group are in line with industry practices and are reviewed annually. The award of bonuses is discretionary and is based on the performance of, firstly, the individual employee, and secondly, the Group.

The Board has adopted a share award scheme ("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 ("Qualified Employees") of the Group pursuant to the share award scheme, of whom (i) Mr. Chu Hui, Ms. Xia Yafang, Mr. Jiang Yongwei and Mr. Hao Minghui are Executive Directors, and (ii) the remaining 17 Qualified Employees are senior management of the Group. 25% of the Awarded Shares (i.e. 8,825,000 Shares) granted to the Qualified Employees were vested on 1 April 2016. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2017, only 500,000 Awarded Shares were vested then. Out of another 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2018, no Awarded Shares was vested then. Out of the final 25% of the Awarded Shares (i.e. 8,825,000 Shares) to be vested on 1 April 2019, 1,000,000 Awarded Shares were forfeited according to the Share Award Scheme as certain Qualified Employees no longer remained employed with the Group during the period under review, and the rest of the Awarded Shares (i.e. 7,825,000 Shares) shall be vested on 1 April 2019 subject to the fulfillment of certain performance conditions by the Qualified Employees.

Property, Plant and Equipment

The Group's property, plant and equipment increased from approximately RMB865.4 million as at 31 December 2017 to approximately RMB879.1 million as at 31 December 2018, representing an increase of approximately 1.6%. This increase was mainly attributed to the net effect of the addition of plants and machineries for the power cable production lines of the Group and the depreciation charged on property, plant and equipment during the year under review.

Outlook and Prospects

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

1. In 2015, China released the RMB2 trillion distribution network investment plan for 2015 to 2020 (investments of RMB300 billion for 2015 and investments of RMB1.7 trillion for 2016 to 2020). However, the total investments actually made in 2015 to 2017 were RMB870 billion only, which were significantly lower than the amount planned. The probability of accumulating amounts of distribution network investments planned but not yet invested will increase significantly in the future. It is expected that the compounded growth rate of distribution network investments for 2018 to 2020 is expected to reach more than 10%. On 25 December 2018, the SGCC held a press conference to announce the expansion of the scope and intensity of "mixed reform" on the basis of the exploration and reform of allowing mixed ownership, such as incremental power distribution, trading institutions and pumped storage power stations. A series of initiatives such as the opening of ultra-high voltage construction investments to private capital were implemented for the first time. The incremental distribution network reform as a highlight of the electricity reform/distribution will speed up the market-oriented reforms, and the process should be significantly accelerated.

2. The weighting of price as a factor in the bidding process of the tenders of the SGCC has been reduced, together with the safety production meeting held at the beginning of 2018 indicates that the chance of a further bidding price cut will be very slim. There were tenders with rebounds in bidding prices of some products recently. This will help grid equipment providers to stabilise or even increase their gross profit margin.

3. The SGCC has issued the "Opinions on Serving the Rural Revitalisation Strategy to Promote Electrification"《關於服務鄉村振興戰略大力推動電氣化的意見》and plans to fully implement the rural electrification upgrading project over the four years from 2019 to 2022. The primary task and foundation of the upgrading of electrification level are to increase investments in rural power networks in China, improve the infrastructure of rural power grids and rapidly improve the core performance indicators, such as the outage time, the reliability rate of power supply and the coverage rate of underground cabling. In the next three years, the SGCC will invest RMB330 billion to implement the rural grid reform.

4. China Railway Corporation plans to put into operation a new line of 6,800 kilometers in 2019, including 3,200 kilometers of high-speed rail, with a total investments of RMB850 billion, representing the highest level of investments made by China Railway Corporation in history.

5. China continues to increase its use of mixed clean energy. China targets that non-fossil fuels will account for about 15% of its primary energy consumption by 2020, about 30% by 2030 and more than 50% by 2050, which will boost the demand for special cables by clean energy plants.

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

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

1. strengthening the controls on business risks is the top priority of the Group's business operations;

2. adhering to the product differentiation strategy and actively developing new markets to increase the Group's market share; and

3. enhancing team building of the sales and marketing team of the Group and developing a "one heart" culture among the team members.

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

For the year ended 31 December 2018, 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 then in force during the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them 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 2018 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 results of the Group for the year ended 31 December 2018.

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 2018 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 the Hong Kong Standards on Auditing, the Hong Kong Standards on Review Engagements or the 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 of the Company for the year ended 31 December 2018 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, 28 March 2019

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.