JIANGNAN GROUP LIMITED

江南集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1366)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of Jiangnan Group Limited (the "Company", together with its subsidiaries, the "Group") dated 27 March 2020, in relation to the unaudited annual results for the year ended 31 December 2019 (the "Announcement").

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce that the Company's auditor, Messrs. Deloitte Touche Tohmatsu, has completed its audit of the consolidated financial statements of the Group for the year ended 31 December 2019 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

Except for (i) adjustments in deferred tax liabilities and its corresponding adjustments in taxation, profit for the year, total comprehensive income for the year, net assets, reserves and total equity; (ii) reclassification adjustment between structured deposits and bank deposits with original maturity over three months; (iii) adjustments relating to earnings per share, the turnover contributed by the overseas markets, breakdown of other income, breakdown of capital expenditures on property, plant and equipment, aging analysis of trade receivables; (iv) the proposed final dividend for the year ended 31 December 2019; and (v) the closure of register of members of the Company, there are no material changes disclosed in the Announcement.

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 7.4% to approximately RMB14,524.2 million (2018: RMB13,525.4 million)
- Gross profit increased by approximately 2.2% to approximately RMB1,518.8 million (2018: RMB1,486.6 million)
- Profit for the year increased by approximately 110.1% to approximately RMB383.2 million (2018: RMB182.4 million)
- Basic earnings per share increased by approximately 92.4% to RMB8.66 cents (2018: RMB4.50 cents (restated))
- The Board recommended a final dividend of HK0.5 cent per share for the year ended 31 December 2019 (2018: nil)

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 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 2019

	Notes	2019 RMB'000	2018 RMB'000
Turnover	3	**14,524,221**	13,525,377
Cost of goods sold		**(13,005,393)**	(12,038,767)
Gross profit		**1,518,828**	1,486,610
Other income	4	**95,245**	84,999
Selling and distribution costs		**(429,575)**	(339,631)
Administrative expenses		**(265,540)**	(294,556)
Research and development costs		**(62,735)**	(57,543)
Other gains (losses), net	5	**9,022**	(191,669)
Impairment losses under expected credit loss ("ECL") model, net of reversal	6	**(101,996)**	(102,452)
Share of results of associates		**(10,608)**	(4,836)
Finance costs		**(292,766)**	(319,022)
Profit before taxation	7	**459,875**	261,900
Taxation	8	**(76,652)**	(79,479)
Profit for the year		**383,223**	182,421
Other comprehensive expense for the year			
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instrument at fair value through other comprehensive income ("FVTOCI")		**(3,298)**	(1,088)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**2,323**	(5,998)
		(975)	(7,086)
Total comprehensive income for the year		**382,248**	175,335
			(restated)
Earnings per share			
— Basic	10	**RMB8.66 cents**	RMB4.50 cents
— Diluted		**RMB8.66 cents**	RMB4.50 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	11	**882,855**	879,127
Right-of-use assets		**301,862**	–
Land use rights		**–**	301,601
Deposits paid for acquisition of property, plant and equipment		**7,242**	11,870
Goodwill		**54,775**	54,775
Interests in associates		**2,969**	2,997
Loan to an associate		**34,404**	57,700
Equity instrument at FVTOCI		**964**	4,262
Deferred tax assets		**2,120**	2,710
		1,287,191	1,315,042
Current assets			
Inventories	12	**3,000,870**	3,208,237
Trade and other receivables	13	**5,533,205**	5,379,213
Structured deposits		**604,559**	–
Pledged bank deposits		**2,069,840**	2,068,956
Bank deposits with original maturity over three months		**861,345**	–
Bank balances and cash		**2,222,470**	2,592,456
		14,292,289	13,248,862
Current liabilities			
Trade and other payables	14	**5,157,812**	4,846,630
Contract liabilities		**710,949**	851,224
Amounts due to directors		**5,325**	4,877
Bank borrowings — due within one year	15	**3,252,800**	3,274,315
Lease liabilities		**169**	–
Taxation payable		**96,404**	92,006
		9,223,459	9,069,052
Net current assets		**5,068,830**	4,179,810
Total assets less current liabilities		**6,356,021**	5,494,852
Non-current liabilities			
Deferred tax liabilities		**47,821**	70,427
Net assets		**6,308,200**	5,424,425
Capital and reserves			
Share capital		**51,350**	32,951
Reserves		**6,256,850**	5,391,474
Total equity		**6,308,200**	5,424,425

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 (the "Stock Exchange"). The immediate holding company of the Company is Power Heritage Group Limited, a company which was incorporated in the British Virgin Islands 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 (the "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 and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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 positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

HKFRS 16 "Leases"

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

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) -Int 4 "Determining whether an Arrangement contains a Lease" and not to apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts that elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application.

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

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

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

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

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

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

Note: Upfront payments for the Group's leasehold land in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current portion of the land use rights (included in trade and other receivables) and the non-current portion of the land use rights amounting to RMB8,298,000 and RMB301,601,000 respectively were reclassified to right-of-use 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 gains (losses), net, impairment losses under ECL model, net of reversal, share of results of associates and finance costs are not allocated to each reportable segment. The segment results are reported to the Executive Directors for the purposes of resource allocation and assessment of segment performance.

The information of segment results are as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue		
— power cables	**10,190,329**	9,475,033
— wires and cables for electrical equipment	**2,804,546**	2,538,890
— bare wires	**505,282**	432,152
— special cables	**1,024,064**	1,079,302
	14,524,221	13,525,377
Cost of goods sold		
— power cables	**9,139,009**	8,454,427
— wires and cables for electrical equipment	**2,621,690**	2,351,837
— bare wires	**441,399**	392,657
— special cables	**803,295**	839,846
	13,005,393	12,038,767
Segment results		
— power cables	**1,051,320**	1,020,606
— wires and cables for electrical equipment	**182,856**	187,053
— bare wires	**63,883**	39,495
— special cables	**220,769**	239,456
	1,518,828	1,486,610

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

	2019	2018
	RMB'000	*RMB'000*
Reportable segment results	**1,518,828**	1,486,610
Unallocated income and expenses		
— Other income	**95,245**	84,999
— Selling and distribution costs	**(429,575)**	(339,631)
— Administrative expenses	**(265,540)**	(294,556)
— Research and development costs	**(62,735)**	(57,543)
— Other gains (losses), net	**9,022**	(191,669)
— Impairment losses under ECL model, net of reversal	**(101,996)**	(102,452)
— Share of results of associates	**(10,608)**	(4,836)
— Finance costs	**(292,766)**	(319,022)
Profit before taxation	**459,875**	261,900

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 2019 and 2018.

Information about major customers

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

4. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**54,806**	61,460
Interest income from an associate	**4,966**	6,258
Income from structured deposits	**22,179**	–
Government subsidies	**10,473**	12,507
Others	**2,821**	4,774
	95,245	84,999

5. OTHER GAINS (LOSSES), NET

	2019	2018
	RMB'000	*RMB'000*
Write-down of inventories	**–**	(113,308)
Impairment loss recognised in respect of goodwill	**–**	(54,831)
Exchange gain (loss)	**9,302**	(22,671)
Loss on disposal of property, plant and equipment	**(356)**	(111)
Loss on deregistration of a subsidiary	**–**	(748)
Others	**76**	–
	9,022	(191,669)

6. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	2019	2018
	RMB'000	*RMB'000*
Impairment losses under ECL, net of reversal on:		
Trade receivables	**81,514**	60,479
Other receivables	**(274)**	41,973
Loan to an associate	**20,756**	–
	101,996	102,452

7. PROFIT BEFORE TAXATION

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,035**	2,653
Other staff costs:		
Salaries and other benefits	**240,338**	240,260
Share award expenses	**294**	1,417
Retirement benefit schemes contribution	**47,165**	47,557
Total staff costs	**289,832**	291,887
Less: Staff costs included in research and development costs	**(26,381)**	(24,982)
	263,451	266,905
Depreciation of property, plant and equipment	**107,644**	98,278
Less: Depreciation included in research and development costs	**(6,041)**	(3,558)
	101,603	94,720
Depreciation of right-of-use assets	**8,647**	–

8. TAXATION

	2019	2018
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC income tax	**98,668**	77,761
Deferred taxation	**(22,016)**	1,718
Taxation charge for the year	**76,652**	79,479

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 High and New Technology Enterprises 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.

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

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

9. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2019 and 2018. Subsequent to the end of the reporting period, a final dividend of HK0.5 cent per share for the year ended 31 December 2019 has been proposed by the Directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

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:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**383,223**	182,421

	2019	2018
	'000	*'000*
		(restated)
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	**4,425,897**	4,049,598
Effect of dilutive potential ordinary shares: Shares granted under the share award scheme	**1,396**	6,877
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**4,427,293**	4,056,475

For the years ended 31 December 2019 and 31 December 2018, the weighted average number of ordinary shares in issue less shares held for the share award scheme for the purpose of the calculation of basic earnings per share has been adjusted for the rights issue of 2,039,433,000 ordinary shares on the basis of one rights share ("Rights Share") for every two existing shares in issue held on the record date at the subscription price of HK$0.28 per Rights Share, completion of which took place on 22 October 2019.

For the years ended 31 December 2019 and 31 December 2018, the weighted average number of ordinary shares for the purpose of the calculation of diluted earnings per share has been adjusted for the shares granted on 28 January 2016 pursuant to the share award scheme adopted by the Company on 9 September 2015.

11. PROPERTY, PLANT AND EQUIPMENT

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

	2019	2018
	RMB'000	*RMB'000*
Buildings	**2,461**	14,088
Plant and machinery	**43,164**	26,653
Motor vehicles	**3,881**	1,328
Furniture, fixtures and equipment	**25,112**	11,064
Construction in progress	**37,721**	60,911
	112,339	114,044

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

At 31 December 2019, the Group pledged certain of its buildings with carrying values of RMB161,992,000 (2018: buildings and machinery with carrying values of RMB181,261,000 and RMB27,050,000, respectively) to certain banks to secure credit facilities granted to the Group.

12. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**45,440**	36,899
Work in progress	**1,045,693**	1,501,616
Finished goods	**1,909,737**	1,669,722
	3,000,870	3,208,237

13. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables, net	**5,098,862**	5,054,838

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 of credit losses, based on the invoice date at the end of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
0 to 90 days	**2,597,767**	2,143,445
91 to 180 days	**861,147**	930,476
181 to 365 days	**569,673**	910,945
Over 365 days	**1,070,275**	1,069,972
	5,098,862	5,054,838

14. TRADE PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**4,734,360**	4,408,498

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

	2019	2018
	RMB'000	*RMB'000*
0 to 90 days	**1,973,144**	1,714,011
91 to 180 days	**1,139,182**	987,920
181 to 365 days	**1,567,163**	1,473,575
Over 365 days	**54,871**	232,992
	4,734,360	4,408,498

15. BANK BORROWINGS — DUE WITHIN ONE YEAR

	2019	2018
	RMB'000	*RMB'000*
Secured	**550,050**	717,082
Secured and guaranteed by independent third parties	**201,900**	330,000
Unsecured	**1,327,850**	1,167,233
Unsecured and guaranteed by independent third parties	**1,173,000**	1,060,000
	3,252,800	3,274,315

16. CAPITAL COMMITMENTS

	2019	2018
	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	**15,241**	22,640

17. EVENT AFTER THE REPORTING PERIOD

Since the outbreak of COVID-19 in China in early 2020, the Chinese government implemented various prevention and emergency measures, such as a partial lockdown policy and extending the holiday of Chinese New Year, in order to minimise the population movement to mitigate the threat of spreading the epidemic across China. It is anticipated that the epidemic situation would have certain negative impacts on the production and sales of the Group in the first quarter of 2020. The outbreak of COVID-19 is a non-adjusting event after the reporting period and does not result in any material adjustments to the audited consolidated financial statements of the Group for the year ended 31 December 2019. The Group will continue to monitor the development of the epidemic and perform further assessment of its impacts.

Furthermore, the outbreak of COVID-19 has brought about additional uncertainties in the Group's operating environment in China. As far as the Group's businesses are concerned, the outbreak has so far caused operational delays and increased demand for working capital. The Group has put in place contingency measures to lower the impact from this outbreak.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB14,524.2 million, representing an increase of approximately 7.4% as compared with that for the year ended 31 December 2018, and profit for the year under review of approximately RMB383.2 million, representing an increase of approximately 110.1% as compared with that for the year ended 31 December 2018. The increase in the profit for the year under review was mainly due to (i) the increase in turnover as compared with that for the year ended 31 December 2018, which in turn has driven an increase in gross profit for the year under review of approximately 2.2% to approximately RMB1,518.8 million (year ended 31 December 2018: RMB1,486.6 million); (ii) other gains (losses), net turning from net losses of approximately RMB191.7 million for the year ended 31 December 2018 to net gains of approximately RMB9.0 million for the year ended 31 December 2019, which were mainly due to (1) the absence of the write-down of inventories and impairment loss recognised in respect of goodwill during the year under review (year ended 31 December 2018: RMB113.3 million and RMB54.8 million respectively); and (2) turning of an exchange loss for the year ended 31 December 2018 to an exchange gain for the year ended 31 December 2019; and (iii) the reduction in administrative expenses and finance costs by approximately 9.9% and 8.2% respectively as compared with those in 2018, that were partially countervailed by the increase in selling and distribution costs by approximately RMB89.9 million to approximately RMB429.6 million during the year under review (year ended 31 December 2018: RMB339.6 million). The Group's gross profit margin for the year under review decreased to approximately 10.5% (year ended 31 December 2018: 11.0%). Basic earnings per share for the year under review was RMB8.66 cents (year ended 31 December 2018: RMB4.50 cents (restated)), representing an increase of approximately 92.4%.

Market review

In 2019, the national economy in China faced a downward pressure. According to the National Bureau of Statistics of China, China's gross domestic product grew by 6.1% over that in 2018 to RMB99.1 trillion but its growth decreased by 0.5 percentage points from 6.6% in 2018. China's Manufacturing Purchase Managers Indices had been below 50% for eight months in 2019 as compared to only one month in 2018, indicating a slowdown in the manufacturing economy in China. Despite the slowdown of the economic growth in China, the national fixed asset investments increased by 5.4% from 2018 to RMB55.1 trillion in 2019, which has provided strong support to the demand for both general and special power cables of the Group.

The average price of copper on the London Metal Exchange Limited decreased by approximately 7.9% from approximately US$6,524.3 per tonne in 2018 to approximately US$6,006.1 per tonne in 2019. The average price of aluminium decreased by approximately 21.0% from approximately US$1,670.6 per tonne in 2018 to approximately US$1,320.5 per tonne in 2019. As the Group prices its products on a cost-plus basis, the decrease in average raw materials prices has driven down the Group's average product prices, which partially offset the turnover growth of the Group caused by the increase in the sales volume of the Group during the year under review.

Business Review

In 2019, despite being held back by the decline in the prices of commodities, such as copper and aluminium, the Group recorded a turnover of approximately RMB14,524.2 million, representing an increase of approximately 7.4% as compared with that in 2018. To cope with the increase in demand for the Group's products, the Group obtained the government approval in March 2019 for setting up eight additional medium and high-voltage cross-linked production lines. The Group will carry out the intelligent expansion and technical adjustment of the medium-voltage production lines in a scheduled and step-by-step manner according to the actual developments made. As a result, the product quality and production efficiency of medium and high-voltage cross-linked cables of the Group has been significantly enhanced, and the delivery period and customer satisfaction has been further improved in addition to energy saving and consumption reduction.

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 revenue was recognised in 2019 resulting in the overseas turnover of the Group boosted by approximately 16.0% to approximately RMB354.6 million for the year under review.

Turnover and Gross Profit Margin of the Products

	Turnover			Gross Profit Margin		
	2019 *RMB'000*	2018 *RMB'000*	change	**2019**	2018	change
Power cables	**10,190,329**	9,475,033	7.5%	**10.3%**	10.8%	-0.5%
Wires and cables for electrical equipment	**2,804,546**	2,538,890	10.5%	**6.5%**	7.4%	-0.9%
Bare wires	**505,282**	432,152	16.9%	**12.6%**	9.1%	3.5%
Special cables	**1,024,064**	1,079,302	-5.1%	**21.6%**	22.2%	-0.6%
TOTAL	**14,524,221**	13,525,377	7.4%	**10.5%**	11.0%	-0.5%

Turnover

Power cable products — 70.1% of total turnover

The growth in the turnover of 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 70.1% of the total turnover of the Group amounted to approximately RMB10,190.3 million, representing an increase of approximately 7.5% over that in 2018 of approximately RMB9,475.0 million. The sales volume of the Group's power cable products for the year under review increased by approximately 6.7% to approximately 238,199 km (year ended 31 December 2018: 223,223 km), which was mainly attributed to the increase in the sales of such products to clients in the energy sector as a result of increase in completed investments in respect of power supply works and the enhancement of market concentration in the wire and cable industry, which allowed the Group to secure more sales orders and contracts during the year under review. The decrease in the average copper price during the year under review had countervailed the increase in average selling price of power cable products resulting from the increase in the Group's sales proportion of higher rated voltage power cables carrying relatively higher selling prices. Hence, the average price of power cable products for the year under review only increased slightly by approximately 0.8% to approximately RMB42,781 per km (year ended 31 December 2018: RMB42,445 per km).

Gross profit for the year under review increased to approximately RMB1,051.3 million (year ended 31 December 2018: RMB1,020.6 million), whereas gross profit margin decreased slightly to approximately 10.3% (year ended 31 December 2018: 10.8%) mainly due to the reduction of value-added tax from 16% to 13% since 1 April 2019.

Wires and cables for electrical equipment products — 19.3% of total turnover

For the year under review, turnover from wires and cables for electrical equipment increased by approximately 10.5% to approximately RMB2,804.5 million (year ended 31 December 2018: RMB2,538.9 million). Sales volume of wires and cables for electrical equipment increased by approximately 12.6% from approximately 1,281,441 km for the year ended 31 December 2018 to approximately 1,442,789 km for the year under review. The average selling price of wires and cables for electrical equipment products decreased by approximately 1.9% from approximately RMB1,981 per km for the year ended 31 December 2018 to approximately RMB1,944 per km for the year under review, mainly due to the decrease in the average copper price in 2019. Gross profit for the year under review decreased to approximately RMB182.9 million (year ended 31 December 2018: RMB187.1 million) and gross profit margin decreased to approximately 6.5% (year ended 31 December 2018: 7.4%), mainly due to the increase in cost of goods sold, which was driven by the increase in raw materials consumed in manufacturing the products sold and the reduction of value-added tax since 1 April 2019.

Bare wire products — 3.5% of total turnover

For the year under review, more aluminium alloy products and ultra-high voltage bare wires have been sold, the sales volume of bare wires increased significantly by approximately 22.2% to approximately 37,726 tonnes for the year under review (year ended 31 December 2018: 30,883 tonnes). However, the turnover of bare wires only increased by approximately 16.9% during the year under review due to the decrease in average price of aluminium. The average price of bare wire products decreased by approximately 4.3% to approximately RMB13,394 per tonne for the year under review (year ended 31 December 2018: RMB13,993 per tonne). The gross profit and gross profit margin increased by approximately 61.7% and 3.5% respectively to approximately RMB63.9 million and 12.6% for the year under review (year ended 31 December 2018: RMB39.5 million and 9.1%) due to change in product mix that the sales proportion of ultra-high voltage bare wires with higher gross profit margin increased during the year under review.

Special cable products — 7.1% of total turnover

The sales volume of special cables for the year ended 31 December 2019 increased by approximately 3.3% to approximately 55,114 km (year ended 31 December 2018: 53,365 km). However, the turnover, gross profit and the average selling price of special cables in the year under review decreased to approximately RMB1,024.1 million, RMB220.8 million and RMB18,581 per km respectively, representing a decrease of approximately 5.1%, 7.8% and 8.1% respectively (year ended 31 December 2018: RMB1,079.3 million, RMB239.5 million and RMB20,225 per km respectively). The decrease in the turnover, gross profit and the average selling price was mainly due to the decrease in average copper price during the year under review. The gross profit margin decreased slightly by approximately 0.6% to approximately 21.6% during the year under review (year ended 31 December 2018: 22.2%) as a result of different product mix in 2019 and 2018.

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 7.2% to approximately RMB14,169.6 million (year ended 31 December 2018: RMB13,219.8 million), which accounted for approximately 97.6% (year ended 31 December 2018: 97.7%) of the Group's total turnover, and such increase was primarily driven by the increase in the sales to customers in the energy and property sectors in the PRC during the year under review.

The turnover contributed by the overseas markets increased by approximately RMB49.0 million or approximately 16.0% to approximately RMB354.6 million for the year under review (year ended 31 December 2018: RMB305.6 million). This increase was mainly attributable to the increase in the sales in Singapore and Vietnam partially offset by the net decrease in sales in other overseas markets 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 8.0% to approximately RMB13,005.4 million during the year under review (year ended 31 December 2018: RMB12,038.8 million). The costs of raw materials accounted for approximately 96.0% of cost of goods sold for the year under review (year ended 31 December 2018: 96.3%), of which copper and aluminium were the Group's major raw materials, accounting for approximately 78.7% of the cost of goods sold for the year under review on aggregate basis (year ended 31 December 2018: 80.1%). Direct labour costs remained at approximately 1.3% of the total cost of goods sold for the year under review (year ended 31 December 2018: 1.2%). The remaining balance of approximately 2.7% of the cost of goods sold for the year under review (year ended 31 December 2018: 2.5%) 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, services costs for providing technical supports and after-sales services, transportation costs for delivery of products to customers and other selling expenses, including marketing expenses, advertising and promotion expenses and other miscellaneous expenses.

The selling and distribution costs increased by approximately RMB89.9 million, or approximately 26.5%, from approximately RMB339.6 million for the year ended 31 December 2018 to approximately RMB429.6 million for the year under review. This increase in selling and distribution costs was mainly due to (i) the increase in the costs incurred in providing better technical supports and after-sales services to the customers; (ii) the increase in the costs incurred in bidding projects; (iii) the increase in the transportation expenses as a result of increase in sales volume; 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 increased by approximately 0.5% to approximately 3.0% for the year under review (year ended 31 December 2018: 2.5%).

Administrative Expenses

The administrative expenses decreased by approximately RMB29.0 million, or approximately 9.9%, from approximately RMB294.6 million for the year ended 31 December 2018 to approximately RMB265.5 million for the year under review, mainly due to (i) the decrease in other tax charges as a result of tax concession; and (ii) the decrease in travelling expenses incurred during the year under review. The administrative expenses as a percentage of turnover decreased from approximately 2.2% for the year ended 31 December 2018 to approximately 1.8% for the year under review.

Research and Development Costs

The research and development costs increased by approximately 9.0% from approximately RMB57.5 million for the year ended 31 December 2018 to approximately RMB62.7 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 (such as the high voltage power cables for charging of new energy vehicles), compared to that incurred in the year ended 31 December 2018.

Other Gains (Losses), Net

Other gains (losses), net were mainly composed of exchange gain (loss) and loss on disposal of property, plant and equipment. Other gains (losses), net turned from net loss of approximately RMB191.7 million for the year ended 31 December 2018 to net gain of approximately RMB9.0 million for the year under review, which were mainly due to the absence of the write-down of inventories and impairment loss recognised in respect of goodwill during the year under review (year ended 31 December 2018: RMB113.3 million and RMB54.8 million respectively), as well as turning of an exchange loss for the year ended 31 December 2018 to an exchange gain for the year under review.

Impairment Losses under ECL Model, Net of Reversal

Impairment losses under ECL model, net of reversal represented the net impairment losses on trade and other receivables as well as loan to an associate, which decreased by approximately RMB0.5 million, or approximately 0.4%, from approximately RMB102.5 million for the year ended 31 December 2018 to approximately RMB102.0 million for the year ended 31 December 2019. This decrease was mainly due to the turnaround from loss to gain in impairment recognised for other receivables that was countervailed by the increase in impairment recognised arising from the increase in trade receivables outstanding as at 31 December 2019 and the long-outstanding loan to an associate.

Finance Costs

Finance costs decreased by approximately 8.2% from approximately RMB319.0 million for the year ended 31 December 2018 to approximately RMB292.8 million for the year under review, which was mainly attributed to the reduction in the interest rates used in the discounting of bank and commercial bills used in financing the Group's operations during the year under review. Finance costs as a percentage of turnover decreased to approximately 2.0% for the year under review from approximately 2.4% for the year ended 31 December 2018.

Profit For The Year

Profit for the year under review increased by approximately 110.1% from approximately RMB182.4 million for the year ended 31 December 2018 to approximately RMB383.2 million. The increase was mainly attributable to (i) the increase in turnover as compared with that for the year ended 31 December 2018, which in turn has driven an increase in gross profit for the year under review of approximately 2.2% to approximately RMB1,518.8 million (year ended 31 December 2018: RMB1,486.6 million); (ii) other gains (losses), net turning from net losses of approximately RMB191.7 million for the year ended 31 December 2018 to net gains of approximately RMB9.0 million for the year ended 31 December 2019, which were mainly due to (1) the absence of the write-down of inventories and impairment loss recognised in respect of goodwill during the year under review (year ended 31 December 2018: RMB113.3 million and RMB54.8 million respectively); and (2) turning of an exchange loss for the year ended 31 December 2018 to an exchange gain for the year ended 31 December 2019; and (iii) the reduction in administrative expenses and finance costs by approximately 9.9% and 8.2% respectively as compared with those in 2018, that were partially countervailed by the increase in selling and distribution costs by approximately RMB89.9 million to approximately RMB429.6 million during the year under review (year ended 31 December 2018: RMB339.6 million).

Financial Position and Liquidity

As at 31 December 2019, total assets of the Group amounted to approximately RMB15,579.5 million (31 December 2018: RMB14,563.9 million), representing an increase of approximately 7.0%.

Non-current assets decreased by approximately 2.1% from approximately RMB1,315.0 million as at 31 December 2018 to approximately RMB1,287.2 million as at 31 December 2019. The decrease was mainly due to the net effect of addition of property, plant and equipment, the decrease in loan to an associate as a result of impairment loss of approximately RMB20.8 million recognised, decrease in the fair value of equity instrument at fair value through other comprehensive income, the decrease in the deposits paid for acquisition of property, plant and equipment and the depreciation charged during the year under review.

Current assets increased by approximately 7.9% from approximately RMB13,248.9 million as at 31 December 2018 to approximately RMB14,292.3 million as at 31 December 2019, which was mainly due to the net proceeds raised on the basis of one Rights Share for every two existing shares in issue held on the record date at the subscription price of HK$0.28 per Rights Share by way of the rights issue of 2,039,433,000 ordinary shares ("Rights Issue") and the free cash generated from business operation where certain amount of such free cash was placed in banks as short-term bank deposits and structured deposits for earning higher interest income as at 31 December 2019, which was partially offset by the decrease in the inventories as at 31 December 2019.

As at 31 December 2019, the Group had bank balances and cash of approximately RMB2,222.5 million (31 December 2018: RMB2,592.5 million), structured deposits of approximately RMB604.6 million (31 December 2018: nil), bank deposits with original maturity over three months of approximately RMB861.3 million (31 December 2018: nil) and pledged bank deposits of approximately RMB2,069.8 million (31 December 2018: RMB2,069.0 million).

Total interest-bearing bank borrowings decreased by approximately 0.7% from approximately RMB3,274.3 million as at 31 December 2018 to approximately RMB3,252.8 million as at 31 December 2019. Of the Group's total bank loans outstanding as at 31 December 2019, approximately 97.2% (31 December 2018: 94.1%) of short-term borrowings were made by the Company's subsidiaries in the PRC. These loans were not guaranteed by the Company.

Total equity was approximately RMB6,308.2 million as at 31 December 2019, which was approximately 16.3% higher than the same as at 31 December 2018 of approximately RMB5,424.4 million. The increase in total equity was mainly attributable to the contribution from net profits for the year under review and the increase in the share capital and share premium of the Company arising from the Rights Issue.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash, bank deposits with original maturity over three months and pledged bank deposits) of approximately negative RMB1,900.9 million over total equity of approximately RMB6,308.2 million as at 31 December 2019, improved from approximately -25.6% as at 31 December 2018 to approximately -30.1% as at 31 December 2019. The improvement in the net-debt-to-equity ratio as at 31 December 2019 as compared with that as at 31 December 2018, was mainly due to the placement of certain free cash to banks as short-term bank deposits for earning higher interest income as at 31 December 2019 (31 December 2018: nil), resulting to the increase of the overall bank balances and cash.

The Group had sufficient committed but unused banking facilities of approximately RMB1,918.3 million as at 31 December 2019 (31 December 2018: RMB2,023.1 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 2019, the Group has pledged certain of its buildings with carrying value of approximately RMB162.0 million (31 December 2018: buildings and machinery with carrying values of approximately RMB181.3 million and RMB27.1 million respectively) to certain banks to secure the credit facilities granted to the Group.

During the year ended 31 December 2019, 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 2019, the majority of the Group's bank balances and cash were denominated in RMB. As the Group's revenue was mainly denominated in RMB and 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 2019, neither the Group nor the Company had any significant contingent liabilities (31 December 2018: nil).

Use of Net Proceeds

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

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$448.1 million. The amount of unutilised net proceeds from the Listing of approximately HK$57.0 million was brought forward in the year of 2018. The actual use of the net proceeds from the Listing as at 31 December 2019 are as follows:

	Intended use of net proceeds as stated in the prospectus of the Company dated 10 April 2012	**Actual use of net proceeds as at 31 December 2019**
	HK$'million	*HK$'million*
Setting up production facilities for aluminium alloy and double capacity conductors	115.0	115.0
Setting up a manufacturing facility in South Africa	97.0	97.0
Upgrade and expansion of existing production facilities and enhancement of research and development capabilities	74.0	74.0
Potential acquisitions of the Group	14.1	14.1
Expansion of the Group's production facilities for high and extra-high voltage cables	148.0	96.5
Total	448.1	396.6

During the year under review, the net proceeds from the Listing of approximately HK$5.5 million were used in the expansion of the Group's production facilities for high and extra-high voltage cables. As at the date hereof, the unutilised net proceeds from the Listing amounted to approximately HK$51.5 million, which are expected to be used in the expansion of the Group's production facilities for high and extra-high voltage cables in the coming two years.

Net proceeds from the Rights Issue

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

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

	Intended use of net proceeds as stated in the prospectus of the Company dated 27 September 2019	**Actual use of net proceeds as at 31 December 2019**	**Unutilised net proceeds as at 31 December 2019**
	HK$'million	*HK$'million*	*HK$'million*
Expansion of the Group's production facilities for mid-rated voltage power cables	218.2	19.9	198.3
Upgrade and development of the Group's production facilities for flexible fire-proof cables	37.9	3.0	34.9
Upgrade and expansion of the Group's existing production facilities and management systems	46.9	28.3	18.6
Repayment of borrowings of the Group	120.0	120.0	–
Potential investment or acquisitions of the Group	110.0	–	110.0
General working capital of the Group	22.5	22.5	–
Total	555.5	193.7	361.8

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

Dividend

Subsequent to the end of the reporting period, the Board recommended a final dividend (the "Final Dividend") of HK0.5 cent per share for the year ended 31 December 2019 (2018: nil) to the shareholders of the Company which is subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on 10 June 2020 (the "AGM").

Subject to the approval of the shareholders of the Company at the AGM, it is expected that the Final Dividend will be paid on or around 6 July 2020 to the shareholders of the Company whose names appear in the register of members of the Company on 24 June 2020.

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 5 June 2020 to 10 June 2020, both dates inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the entitlement 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 4 June 2020.

For the purpose of determining the entitlement to the proposed Final Dividend for the year ended 31 December 2019, the register of members of the Company will be closed from 19 June 2020 to 24 June 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for entitlement to the proposed Final Dividend for the year ended 31 December 2019, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 18 June 2020.

Employees and Remuneration

As at 31 December 2019, the Group had a total of 3,284 (31 December 2018: 3,184) 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, and Mr. Jiang Yongwei are Executive Directors and Mr. Hao Minghui, a former Executive Director who retired on 27 May 2019, 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, only 7,800,000 Awarded Shares were vested then.

Property, Plant and Equipment

The Group's property, plant and equipment increased from approximately RMB879.1 million as at 31 December 2018 to approximately RMB882.9 million as at 31 December 2019, representing an increase of approximately 0.4%. 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

In 2020, the Group will continue to be exposed to greater financial pressures and challenges due to the global and domestic macroeconomic conditions. In China, the Group is faced with downward pressure caused by the downturn in the macroeconomic performance resulting in the continuing trend of long-term predicaments affecting the domestic and the real economy with the challenges of structural adjustments, shortage of funds and increase in costs. The outbreak of COVID-19 in China in early 2020 triggered the central government in China to activate the level I response to the public health events which have caused serious adverse impacts on every sectors and industries in which the operation costs (such as labour costs, production costs and transportation costs) of companies have significantly increased, resulting in the dramatic decline in their operating results for the first quarter of 2020 owing to the interruption of business operations. Meanwhile, a widespread outbreak of COVID-19 in many other countries including South Korea, Iran, Japan, Europe and the United States will undoubtedly pose severe challenges to the global economies which result in a negative impact on the Group's revenue generating from overseas markets.

In 2020, a significant effect will also be imposed on the property markets in China under the central government policies of "housing for living, not for speculation" and the gradual implementation of such other policies launched in 2019. Despite the economic turmoil due to COVID-19, the Group considers such effect shall be temporary given that China is undergoing the industrial optimisation and upgrade and it has solid economic foundation, which will create opportunities for the business development of the Group in 2020 in the following aspects:

1. The central government in China will keep its active role to promote various financial policies and monetary policies for stabilising the economy. Thanks to the central government in China for its increase in the investments, efforts for stabilising total demands and initiatives for boosting economic growth and the ongoing implementation of different policies and initiatives including "One Belt One Road", "Rise of central regions of China", "Development of western regions of China", "revitalization of north-eastern regions of China", "priority of development for eastern regions of China" as well as establishing Yangtze River Economic Zone and integrating the model areas of Yangtze River Delta Region;

2. On 26 December 2019, the minister of Ministry of Transport, Mr. Li Xiaopeng, delivered his forward-looking speech in the business conference of national transport and its transportation in 2020 that RMB800.0 billion will be invested in developing a railway network in China. As disclosed in the chairman's report of the business conference of China State Railway Group Co., Ltd. dated 2 January 2020, the central government had assigned a task to the company to build a railway spanning across over 4,000 kilometres in China including the 2,000-kilometre rails for high-speed trains;

3. In 2020, "new infrastructures" (which are principally involved in seven major sectors including 5G infrastructures, ultra-high voltage cables, intercity express railway and intercity rail transport, charging poles for new energy automobiles, big data centres, artificial intelligence as well as industrialised internet) will become the driving force of new momentum for the vitality of the economic growth. As at 1 March 2020, 13 provinces together with municipalities under central government direct administration (including Beijing, Hebei, Shanxi, Shanghai, Heilongjiang, Jiangsu, Fujian, Shandong, Henan, Yunnan, Sichuan, Chongqing and Ningxia) have published their lists of 2020 investment plans for key infrastructure items which cover a total of 10,326 items with over RMB33 trillion investment solely in new infrastructures; and

4. The "Key highlighted tasks of State Grid Corporation of China ("SGCC") in 2020" published by SGCC in early March of 2020 in relation to the 10 major categories of projects including by Internet of Things for Electricity, comprehensive energy service, ultra-high voltage cables, the operation and distribution of power integration, electricity power market transactions and chips as well as details of 31 specific projects, of which the construction of 7 ultra-high voltage direct current projects will be approved this year. Besides, SGCC has been striking for the approval of two privately invested ultra-high voltage direct current projects. SGCC expects that the production of ultra-high voltage cables will generate investment of approximately RMB150.0 billion of investment for this year.

In view of the above, the Group is still confident about the prospects of the wires and cables industry in China in 2020 despite the unprecedented challenging economic environment.

Having said that, the Group still has many challenges and ongoing tasks in 2020. For example, improving the risk management of the Group, exploring the market share and strengthening the team management. The Group will focus on the following four areas in its business operations in 2020:

1. in response to the adverse conditions of market shrink across multiple industries, the Group will shift its business concept and philosophy by expansion of high-end markets and exploration of untapped markets while keeping its strength in the development of the existing established markets to ensure continuing stable business development;

2. the Group will strengthen its prevention and control in all aspects relating to trade receivables, process control, repayment of loans, appraisals and evaluations of contracts and intellectual properties to avoid any material business risk;

3. the Group will strengthen its reinforcement in the internal control, consolidate its management foundation, deepen the concept of its services, broaden its income sources and reduce its costs, save energy and reduce consumption, improve management efficiency and facilitate the high quality management development; and

4. the Group will put more effort on technology advancement and production capacity improvement in an attempt to unleash more development potential in order to further boost business driving momentum in 2020. Four high-speed production lines for medium-rated voltage cables were set up in 2019, two of them will commence production in May 2020 while the other two will commence operation in October 2020. Two mineral insulated cable (BTTZ) production lines will be added to the fire retardant cable workshop.

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

For the year ended 31 December 2019, 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 2019.

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 2019.

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 2019 was noted by the Company.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and has reviewed the unaudited and audited consolidated annual results of the Group for the year ended 31 December 2019.

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

The information contained in this announcement has been reviewed by the Audit Committee.

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 2019 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 as approved by the Board on 17 April 2020. 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 announcement of the audited consolidated financial statements of the Group for the year ended 31 December 2019 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 2019 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the same websites by 15 May 2020.

ACKNOWLEDGEMENT

The chairman of the Board 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.

On behalf of the Board
Jiangnan Group Limited
Chu Hui
Chairman and chief executive officer

Hong Kong, 17 April 2020

As at the date of this announcement, the Executive Directors are Mr. Chu Hui, Ms. Xia Yafang and Mr. Jiang Yongwei, and the independent non-executive Directors are Mr. He Zhisong, Mr. Yang Rongkai and Mr. Kan Man Yui Kenneth.