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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Turnover decreased by approximately 20.0% to RMB4,996.7 million (2019: RMB6,247.0 million)
- Gross profit decreased by approximately 18.6% to RMB534.6 million (2019: RMB657.0 million)
- Profit for the period decreased by approximately 82.5% to RMB20.7 million (2019: RMB118.2 million)
- Basic earnings per share decreased by approximately 88.4% to RMB0.34 cents (2019: RMB2.93 cents (restated))

The board (the "Board") of directors (the "Directors") of Jiangnan Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended	
		30.6.2020	30.6.2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Turnover	*3*	**4,996,722**	6,246,963
Cost of goods sold		**(4,462,085)**	(5,590,002)
Gross profit		**534,637**	656,961
Other income	*4*	**32,286**	34,400
Selling and distribution costs		**(221,464)**	(145,234)
Administrative expenses		**(134,807)**	(117,427)
Research and development costs		**(30,838)**	(28,858)
Other (losses) gains, net	*5*	**(13,867)**	14,311
Impairment losses under expected credit loss ("ECL") model, net of reversal	*6*	**(3,368)**	(104,508)
Share of results of associates		**2,072**	(5,390)
Finance costs		**(135,490)**	(154,267)
Profit before taxation	*7*	**29,161**	149,988
Taxation	*8*	**(8,503)**	(31,769)
Profit for the period		**20,658**	118,219
Other comprehensive income for the period			
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		**–**	(301)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of a foreign operation		**(8,216)**	1,275
Total comprehensive income for the period		**12,442**	119,193
			(restated)
Earnings per share — Basic	*10*	**RMB0.34 cents**	RMB2.93 cents
— Diluted		**RMB0.34 cents**	RMB2.93 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Notes	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	**913,467**	882,855
Right-of-use assets		**298,267**	301,862
Deposits paid for acquisition of property, plant and equipment		**12,226**	7,242
Goodwill		**54,775**	54,775
Interests in associates		**2,919**	2,969
Loan to an associate		**21,777**	34,404
Equity instrument at fair value through other comprehensive income		**964**	964
Deferred tax assets		**1,825**	2,120
		1,306,220	1,287,191
Current assets			
Inventories		**3,341,723**	3,000,870
Trade and other receivables	12	**6,043,399**	5,533,205
Structured deposits		**216,000**	604,559
Pledged bank deposits		**2,321,592**	2,069,840
Bank deposits with original maturity over three months		**735,475**	861,345
Bank balances and cash		**1,243,294**	2,222,470
		13,901,483	14,292,289
Current liabilities			
Trade and other payables	13	**4,274,592**	5,157,812
Contract liabilities		**836,409**	710,949
Amounts due to directors		**5,810**	5,325
Bank borrowings — due within one year	14	**3,664,821**	3,252,800
Lease liabilities		**330**	169
Taxation payable		**85,860**	96,404
		8,867,822	9,223,459
Net current assets		**5,033,661**	5,068,830
Total assets less current liabilities		**6,339,881**	6,356,021
Non-current liabilities			
Lease liabilities		**313**	–
Deferred tax liabilities		**46,615**	47,821
		46,928	47,821
Net assets		**6,292,953**	6,308,200
Capital and reserves			
Share capital	15	**51,350**	51,350
Reserves		**6,241,603**	6,256,850
Total equity		**6,292,953**	6,308,200

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements in Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

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

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

Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected in the consolidated financial statements for the year ending 31 December 2020.

Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 "Interest Rate Benchmark Reform"

Accounting policies

Hedge accounting

For the purpose of determining whether a forecast transaction (or a component thereof) in a cash flow hedge is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

<u>Assessment of hedging relationship and effectiveness</u>

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

<u>Cash flow hedges</u>

For the purpose of reclassifying the amount of accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Transition and summary of effects

The amendments had no impact on the condensed consolidated financial statements of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

The segment results represent the gross profits earned by each segment (segment revenue less segment cost of goods sold), which are internally generated financial information that has been regularly reviewed by the executive Directors. However, other income, selling and distribution costs, administrative expenses, research and development costs, other (losses) gains, net, impairment losses under ECL model, net of reversal, share of results of associates and finance costs have not been 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 is as follows:

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
— power cables	**3,289,309**	4,443,395
— wires and cables for electrical equipment	**1,042,187**	1,240,822
— bare wires	**185,516**	162,215
— special cables	**479,710**	400,531
	4,996,722	6,246,963
Cost of goods sold		
— power cables	**2,926,076**	3,982,226
— wires and cables for electrical equipment	**989,353**	1,157,552
— bare wires	**163,693**	145,197
— special cables	**382,963**	305,027
	4,462,085	5,590,002
Segment results		
— power cables	**363,233**	461,169
— wires and cables for electrical equipment	**52,834**	83,270
— bare wires	**21,823**	17,018
— special cables	**96,747**	95,504
	534,637	656,961

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

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Reportable segment results	**534,637**	656,961
Unallocated income and expenses		
— Other income	**32,286**	34,400
— Selling and distribution costs	**(221,464)**	(145,234)
— Administrative expenses	**(134,807)**	(117,427)
— Research and development costs	**(30,838)**	(28,858)
— Other (losses) gains, net	**(13,867)**	14,311
— Impairment losses under ECL model, net of reversal	**(3,368)**	(104,508)
— Share of results of associates	**2,072**	(5,390)
— Finance costs	**(135,490)**	(154,267)
Profit before taxation	**29,161**	149,988

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, other than reportable segment revenue and segment results as disclosed above, no analysis of segment assets and segment liabilities is presented.

Geographical information

More than 90% of the Group's sales were made to customers in the People's Republic of China (the "PRC" or "China") (country of domicile) for both reporting periods. More than 90% of the Group's non-current assets were located in the PRC at 30 June 2020 and 31 December 2019.

Information about major customers

The Group had no customer that contributed over 10% of the total turnover of the Group in any of the reporting periods.

4. OTHER INCOME

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**18,864**	17,495
Interest income from an associate	**2,465**	3,083
Investment income from structured deposits	**4,187**	6,458
Government subsidies *(Note)*	**6,156**	6,543
Others	**614**	821
	32,286	34,400

Note: The amount represents the incentive subsidies provided by the PRC local authorities to the Group to encourage business development in the Yixing region and research and energy reduction activities conducted by the Group, and all of them had no specific conditions imposed.

5. OTHER (LOSSES) GAINS, NET

	Six months ended **30.6.2020** *RMB'000* **(unaudited)**	30.6.2019 *RMB'000* (unaudited)
Exchange (loss) gain	**(15,440)**	14,230
Gain on disposal of property, plant and equipment Loss	**88**	81
Others	**1,485**	–
	(13,867)	14,311

6. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	Six months ended **30.6.2020** *RMB'000* **(unaudited)**	30.6.2019 *RMB'000* (unaudited)
Impairment losses under ECL model, net of reversal on:		
Trade receivables	**20,581**	103,785
Other receivables	**(17,213)**	723
	3,368	104,508

7. PROFIT BEFORE TAXATION

	Six months ended **30.6.2020** *RMB'000* **(unaudited)**	30.6.2019 *RMB'000* (unaudited)
Profit has been arrived at after charging:		
Interest on bank borrowings	**135,488**	154,220
Interest on lease liabilities	**2**	47
	135,490	154,267
Cost of inventories recognised as expenses	**4,452,322**	5,575,023
Depreciation of property, plant and equipment	**56,351**	51,456
Depreciation of right-of-use assets	**4,241**	4,654
Short term lease payments	**1,442**	2,476

8. TAXATION

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
PRC income tax	**9,414**	30,293
Deferred taxation	**(911)**	1,476
Taxation charged for the period	**8,503**	31,769

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Under the Law (the "EIT Law") of the PRC on Enterprise Income Tax (the "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 onwards. 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.

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

Taxation arising from South Africa is calculated at the rate prevailing in South Africa. The Group did not have assessable profit arising from its subsidiary in South Africa for both periods.

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

9. DIVIDENDS

During the current interim period, a final dividend of HK0.5 cent per share in respect of the year ended 31 December 2019 (six months ended 30 June 2019: nil) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$30,350,820 (six months ended 30 June 2019: nil), net of dividends payable on shares held under the share award scheme of the Company.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

10. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to the owners of the Company)	**20,658**	118,219

	Six months ended	
	30.6.2020	30.6.2019
	'000	*'000*
	(unaudited)	(unaudited)
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue less shares held under the share award scheme for the purpose of calculation of basic earnings per share	**6,070,164**	4,039,149
Effect of dilutive potential ordinary shares		
Shares granted under the share award scheme	**–**	1,396
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**6,070,164**	4,040,545

For the six months ended 30 June 2019, the weighted average number of ordinary shares in issue less shares held for the share award scheme adopted by the Company on 9 September 2015 for the purpose of the calculation of basic earnings per share has been adjusted for the rights issue under which 2,039,433,000 ordinary shares of the Company were issued on the basis of one rights share (the "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, the completion of which took place on 22 October 2019.

For the six months ended 30 June 2019, 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 six months ended 30 June 2020 and 2019, the Group incurred the following capital expenditures on property, plant and equipment:

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Buildings	**3,691**	–
Plant and machinery	**16,211**	22,012
Furniture, fixtures and equipment	**14,722**	12,021
Motor vehicles	**2,290**	2,296
Construction in progress	**50,140**	5,550
Total	**87,054**	41,879

During the six months ended 30 June 2020, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB107,000 (six months ended 30 June 2019: RMB57,000) for cash proceeds of approximately RMB195,000 (six months ended 30 June 2019: RMB138,000), resulting in a gain on disposal of approximately RMB88,000 (six months ended 30 June 2019: RMB81,000).

During the six months ended 30 June 2020, the Group entered into new lease agreements for the use of buildings for 2 years, under which the Group is required to make fixed monthly payments during the contract period. On commencement of these lease agreements, the Group recognised approximately RMB646,000 (six months ended 30 June 2019: RMB797,000) of right-of-use assets and approximately RMB646,000 (six months ended 30 June 2019: RMB797,000) of lease liabilities.

As at 30 June 2020, the Group has pledged certain of its buildings and machinery with carrying values of approximately RMB180,354,000 and approximately RMB60,258,000 respectively (31 December 2019: buildings with carrying values of approximately RMB161,992,000) to certain banks to secure credit facilities granted to the Group.

12. TRADE AND OTHER RECEIVABLES

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables from contract with customers	**5,996,318**	5,521,368
Less: Allowance for credit losses	**(443,087)**	(422,506)
Trade receivables, net	**5,553,231**	5,098,862
Deposits paid to suppliers	**290,993**	254,535
Prepayments	**34,302**	37,168
Staff advances	**26,243**	20,845
Tender deposits	**98,125**	85,208
Value-added tax receivables	**909**	1,480
Other receivables	**39,596**	35,107
	6,043,399	5,533,205

At 30 June 2020, total bills received amounting to RMB975,362,000 (31 December 2019: RMB452,500,000) were held by the Group for future settlement of trade receivables.

The Group maintains a defined credit policy. The Group normally allows credit terms ranging from 30 days to 180 days to its trade debtors. The ageing analysis of trade receivables, net of allowance for credit losses, based on the invoice date at the end of the reporting periods is as follows:

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 to 90 days	**2,607,631**	2,597,767
91 to 180 days	**744,038**	861,147
181 to 365 days	**1,078,507**	569,673
Over 365 days	**1,123,055**	1,070,275
	5,553,231	5,098,862

At 30 June 2020, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of approximately RMB2,677,003,000 (31 December 2019: RMB2,544,875,000) which were past due as at the reporting date. Out of the past due balance, RMB2,468,534,000 (31 December 2019: 2,280,722,000) has been past due 90 days or more and is not considered as in default based on the good repayment records of those debtors and continuous business relationships with the Group. Other than the bills receivables amounting to RMB975,362,000 (31 December 2019: RMB452,500,000), the Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**3,910,425**	4,734,360
Payroll and welfare accruals	**58,885**	101,447
Consideration payables *(Note a)*	**130,698**	130,698
Loans advanced from staff *(Note b)*	**36,702**	67,179
Other tax payables	**21,086**	27,504
Other deposits	**2,980**	3,880
Other payables and accruals	**113,816**	92,744
	4,274,592	5,157,812

Included in the Group's trade payables at 30 June 2020 were bills payables of RMB2,606,428,000 (31 December 2019: RMB2,392,462,000).

Notes:

(a) The amount represents consideration payables by the Group in connection with the acquisition of subsidiaries in prior years.

(b) The amount represents loans advanced from the staff of the Group which were unsecured, non-interest bearing and repayable on demand.

The Group is normally granted credit terms ranging from 30 days to 90 days by its suppliers. The ageing analysis of trade and bills payables based on the invoice date at the end of the reporting periods is as follows:

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Age		
0 to 90 days	**1,328,394**	1,973,144
91 to 180 days	**1,477,434**	1,139,182
181 to 365 days	**786,034**	1,567,163
Over 1 year	**318,563**	54,871
	3,910,425	4,734,360

14. BANK BORROWINGS — DUE WITHIN ONE YEAR

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Secured	**587,971**	550,050
Secured and guaranteed by independent third parties	**250,000**	201,900
Unsecured	**1,708,850**	1,327,850
Unsecured and guaranteed by independent third parties	**1,118,000**	1,173,000
	3,664,821	3,252,800
The bank borrowings comprise:		
Variable rate borrowings	**345,971**	330,550
Fixed rate borrowings	**3,318,850**	2,922,250
	3,664,821	3,252,800

Included in bank borrowings are the following amounts denominated in currencies other than the functional currency of the group entities that they relate to:

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Euro	**138,971**	137,550

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

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
For bank borrowings:		
— property, plant and equipment	**240,612**	161,992
— right-of-use assets	**277,505**	281,232
For bank borrowings and bills payables:		
— pledged bank deposits	**2,321,592**	2,069,840
	2,839,709	2,513,064

15. SHARE CAPITAL

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

	Number of shares	**Amount in**	**Shown in the financial statements as**
		HK$	*RMB'000*
Ordinary shares at HK$0.01 each			
Authorised:			
At 1 January 2019, 31 December 2019 (audited) and 30 June 2020 (unaudited)	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2019	4,078,866,000	40,788,660	32,951
Issue of shares *(Note)*	2,039,433,000	20,394,330	18,399
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	6,118,299,000	61,182,990	51,350

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

16. CAPITAL COMMITMENTS

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditures contracted for but not provided for in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	**6,782**	15,241

17. CONTINGENT LIABILITIES

As at 30 June 2020, neither the Group nor the Company had any significant contingent liabilities.

18. SHARE AWARD SCHEME

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

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

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

The fair value of the Awarded Shares granted was determined with reference to the market value of the shares on the grant date taking into account the price volatility of the shares of the Company, the risk-free rate and the vesting period as well as the exclusion of the expected dividends, as the employees are not entitled to receive dividends paid during the vesting period. The fair value of the Awarded Shares on the grant date was approximately HK$30,182,000 (approximately RMB25,385,000). The total amount charged to profit or loss in respect of the fair value of the Awarded Shares amounted to approximately HK$449,000 (equivalent to approximately RMB394,000) for the six months ended 30 June 2019 (six months ended 30 June 2020: nil).

Movements of the shares granted to the Qualified Employees and vested under the share award scheme were as follows:

	Number of shares *'000*
Outstanding as at 1 January 2019	7,825
Awarded Shares vested *(Note)*	(7,800)
Awarded Shares forfeited *(Note)*	(25)
Outstanding as at 31 December 2019 (audited) and 30 June 2020 (unaudited)	–

Note: Based on the fulfilment of certain performance conditions, 7,800,000 Awarded Shares were vested on 1 April 2019 to certain Qualified Employees with 25,000 Awarded Shares being forfeited.

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

	Number of shares purchased *'000*	Cost of purchase *HK$'000*	Cost of purchase *RMB'000*
At 1 January 2019	55,935	55,377	46,702
Shares transferred out upon being vested	(7,800)	(7,722)	(6,512)
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	48,135	47,655	40,190

19. RELATED PARTIES TRANSACTIONS

Other than the transactions and balances with related parties disclosed in the unaudited condensed consolidated statement of financial position as "Amounts due to directors" and "Loan to an associate", and the compensation of the Directors below (including the emoluments of the Directors), the Group had no other significant transactions and balances with related parties during the reporting periods.

Compensation of Directors

The compensation of the Directors during the reporting periods was as follows:

	Six months ended	
	30.6.2020 ***RMB'000*** **(unaudited)**	30.6.2019 *RMB'000* (unaudited)
Basic salaries and allowances	**857**	1,003
Share-based payments	**–**	101
Retirement benefits scheme contributions	**18**	25
	875	1,129

The remuneration of the Directors is determined by the remuneration committee of the Board having regard to the performance of the individual Directors and the market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

For the period under review, the Group recorded a turnover of approximately RMB4,996.7 million, representing a decrease of approximately 20.0% as compared with that in the corresponding period in 2019, and a profit for the period under review of approximately RMB20.7 million, representing a decrease of approximately 82.5% as compared with that in the corresponding period in 2019. The decrease in the profit for the period under review was mainly due to (i) the decrease in turnover as compared with that in the corresponding period in 2019 due to various preventive and emergency measures, such as a partial lockdown policy and extension of the Chinese New Year holidays for the sake of minimising the population movements to mitigate the threat of spreading the Coronavirus Disease 2019 (the "COVID-19") across the PRC, implemented by the Chinese government during the outbreak of COVID-19 in the PRC in early 2020; (ii) the increase in selling and distribution costs by approximately 52.5% to approximately RMB221.5 million as compared with that in the corresponding period in 2019, which was mainly due to (a) the increase in the costs incurred in providing better technical supports and after-sales services to the customers; and (b) the increase in costs incurred in bidding projects; (iii) the increase in administrative expenses by approximately 14.8% to approximately RMB134.8 million as compared with that in the corresponding period in 2019, which was mainly due to the increase in staff costs and general expenses for enhancement of business and employee health management; and (iv) the turning of an exchange gain of approximately RMB14.2 million for the six months ended 30 June 2019 to an exchange loss of approximately RMB15.4 million for the period under review, all partially offset by (i) the substantial reduction in impairment loss under ECL model, net of reversal by approximately 96.8% to approximately RMB3.4 million (six months ended 30 June 2019: RMB104.5 million), mainly due to the amount and aging of trade and other receivables over one year remaining stable during the period under review; (ii) the turning of share of losses from associates of approximately RMB5.4 million for the six months ended 30 June 2019 to share of profits from associates of approximately RMB2.1 million during the period under review; (iii) the reduction in finance costs by approximately 12.2% to approximately RMB135.5 million compared with that in the corresponding period in 2019, which was mainly due to the reduction in the interest rates used in the discounting of bank and commercial bills during the period under review; and (iv) the decrease in taxation by approximately 73.2% to approximately RMB8.5 million as compared to that in the corresponding period in 2019 as a result of the substantial reduction in taxable profit for the period under review. Basic earnings per share for the period under review was RMB0.34 cents while that for the six months ended 30 June 2019 was RMB2.93 cents (restated), representing a decrease of approximately 88.4%.

Market And Business Review

According to the statistical data published by the National Bureau of Statistics of the PRC, the gross domestic product of the PRC dropped by 1.6% in the first half of 2020 due to the outbreak of COVID-19 in the PRC in early 2020 and around the world which caused significant adverse impacts on the economy in the PRC. As COVID-19 continued to spread across the world, the epidemic remained severe in major economies, such as the United States of America (the "US"), India and South Africa, in spite of the attempts taken to control and prevent its further spread, which has caused increasing downward pressure and recession risks to the global economy. On the other hand, the confrontation between China and the US continued to escalate. The US Government held down high-tech enterprises from China, interfered with the affairs of Hong Kong and Xinjiang by using the excuse of human rights issues, and compulsorily ordered China to close its consulate, etc. The continuous deterioration of relations between China and the US has affected the confidence in global economic development, which has caused certain impacts on the overseas export business of the Group. For the six months ended 30 June 2020, the average price of copper on the London Metal Exchange Limited was USD5,490 per tonne, which was 11.0% lower than that in the corresponding period in 2019. For the six months ended 30 June 2020, the average price of aluminium was USD1,267 per tonne, which was 8.0% lower than that in the corresponding period in 2019. As the Group prices its products on a cost-plus basis, the decrease in raw material prices has driven down the Group's average product prices during the period under review.

Turnover

For the six months ended 30 June	**Turnover**			**Gross Profit Margin**		
	2020 *RMB million*	2019 *RMB million*	Percentage Change	**2020**	2019	Change
Power cables	**3,289.3**	4,443.4	–26.0%	**11.0%**	10.4%	0.6%
Wires and cables for electrical equipment	**1,042.2**	1,240.8	–16.0%	**5.1%**	6.7%	–1.6%
Bare wires	**185.5**	162.3	14.4%	**11.8%**	10.5%	1.3%
Special cables	**479.7**	400.5	19.8%	**20.2%**	23.8%	–3.6%
Total	**4,996.7**	6,247.0	–20.0%	**10.7%**	10.5%	0.2%

Power cable products — 65.8% of total turnover

For the period under review, turnover from power cable products amounted to approximately RMB3,289.3 million, representing a decrease of approximately 26.0% over that for the corresponding period in 2019 (six months ended 30 June 2019: RMB4,443.4 million), and turnover of power cables accounted for approximately 65.8% of the total turnover of the Group. Sales volume of the Group's power cable products significantly decreased by approximately 19.3% to approximately 82,896 km (six months ended 30 June 2019: 102,711 km), mainly attributable to the outbreak of COVID-19, which had reduced customers' consumption of the Group's products during the period under review. Due to the decrease in the average copper price, the average price of the power cable products for the period under review decreased by approximately 8.3% to approximately RMB39,680 per km (six months ended 30 June 2019: RMB43,261 per km). Gross profit for the period under review decreased to approximately RMB363.2 million (six months ended 30 June 2019: RMB461.2 million) in line with the decrease in turnover during the period under review, while gross profit margin increased to approximately 11.0% (six months ended 30 June 2019: 10.4%) due to the increase in sales proportion of higher profit margin products.

Wire and cables for electrical equipment products — 20.9% of total turnover

For the period under review, turnover from wires and cables for electrical equipment decreased by approximately 16.0% to approximately RMB1,042.2 million (six months ended 30 June 2019: RMB1,240.8 million). Sales volume of wires and cables for electrical equipment decreased by approximately 5.3% from approximately 634,916 km for the six months ended 30 June 2019 to approximately 601,445 km for the period under review due to the outbreak of COVID-19, which had reduced customers' consumption of the Group's products during the period under review. The average price of wires and cables for electrical equipment decreased by approximately 11.3% from approximately RMB1,954 per km for the six months ended 30 June 2019 to approximately RMB1,733 per km for the period under review, mainly due to the decrease in the average copper price during the period under review. The gross profit for the period under review decreased to approximately RMB52.8 million (six months ended 30 June 2019: RMB83.3 million) and the gross profit margin for the period under review decreased to approximately 5.1% (six months ended 30 June 2019: 6.7%), mainly due to the decrease in turnover during the period under review and the fierce market competition of the cable products which carried lower profit margin.

Bare wire products — 3.7% of total turnover

Turnover from bare wires increased by approximately 14.4% to approximately RMB185.5 million (six months ended 30 June 2019: RMB162.3 million) for the period under review and sales volume of bare wires increased by approximately 8.9% from approximately 12,200 tonnes for the six months ended 30 June 2019 to approximately 13,287 tonnes for the period under review, attributable to the increase in the demand for aluminum-alloy products by State Grid Corporation of China (the "SGCC"), a major customer of the Group. The average price of bare wire products increased by approximately 5.0% to approximately RMB13,962 per tonne (six months ended 30 June 2019: RMB13,296 per tonne) due to the increase in the sales of aluminum-alloy bae wire products with higher voltage carrying higher selling prices, which outweighed the decrease in the average aluminum price during the period under review. Due to the same reason as above mentioned, the gross profit margin of bare wire products increased by approximately 1.3% to 11.8% for the period under review (six months ended 30 June 2019: 10.5%).

Special cable products — 9.6% of total turnover

During the period under review, the sales volume of special cables increased to approximately 25,439 km (six months ended 30 June 2019: 22,791 km) due to the increase in infrastructure investments in the railway transportation industry, which has provided support to the stable growth of the demand for the special power cables of the Group. The average selling price of special cables increased by approximately 7.3% from approximately RMB17,574 per km for the six months ended 30 June 2019 to approximately RMB18,857 per km for the period under review. This increase in the average selling price was mainly due to the decrease in the average price of copper being outweighed by the increase in the sales of cables with special functionality which carried higher production costs during the period under review. However, the gross profit margin of special cables decreased by approximately 3.6% to approximately 20.2% (six months ended 30 June 2019: 23.8%) due to the change of product mix during the period under review.

Turnover by Geographical Markets

The PRC remains the Group's key market. Sales in the PRC market for the period under review decreased by approximately 19.0% to approximately RMB4,936.0 million (six months ended 30 June 2019: RMB6,090.4 million), which accounted for approximately 98.8% of the Group's total turnover, and such decrease was primarily due to the outbreak of COVID-19 which had reduced customers' consumption of the Group's products during the period under review .

Revenue contributed by the overseas markets for the period under review decreased by approximately RMB95.9 million or approximately 61.2% as compared with that for the corresponding period in 2019. This decrease was mainly attributable to the decrease in sales in Singapore and South Africa as a result of the outbreak of COVID-19 in the local markets of those countries during the period 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, decreased by approximately 20.2% to approximately RMB4,462.1 million during the period under review (six months ended 30 June 2019: RMB5,590.0 million). Costs of raw materials accounted for approximately 95.2% of the cost of goods sold for the period under review, of which copper and aluminium were the Group's major raw materials accounting for approximately 79.2% of the cost of goods sold for the period under review on an aggregate basis. Direct labour costs increased and accounted for approximately 1.5% of the total cost of goods sold for the period under review. The remaining balance of approximately 3.3% of the cost of goods sold for the period under review was attributable to production costs, which mainly consisted of depreciation of equipment used in the production process, maintenance of production lines and equipment, moulding of parts and components and other miscellaneous production-related costs.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately RMB122.3 million, or approximately 18.6%, from approximately RMB657.0 million for the six months ended 30 June 2019 to approximately RMB534.6 million for the period under review. Gross profit margin increased slightly to approximately 10.7% for the period under review from approximately 10.5% for the six months ended 30 June 2019. The decrease in gross profit for the period under review was in line with the decrease in turnover during the period under review.

Profit for the Period

Profit for the period under review decreased significantly by approximately 82.5% from approximately RMB118.2 million for the six months ended 30 June 2019 to approximately RMB20.7 million for the period under review. The decrease in the profit for the period under review was mainly due to (i) the decrease in turnover as compared with that in the corresponding period in 2019 due to various preventive and emergency measures, such as a partial lockdown policy and extension of the Chinese New Year holidays for the sake of minimising the population movements to mitigate the threat of spreading COVID-19 across the PRC, implemented by the Chinese government during the outbreak of COVID-19 in the PRC in early 2020; (ii) the increase in selling and distribution costs by approximately 52.5% to approximately RMB221.5 million as compared with that in the corresponding period in 2019, which was mainly due to (a) the increase in the costs incurred in providing better technical supports and after-sales services to the customers; and (b) the increase in costs incurred in bidding projects; (iii) the increase in administrative expenses by approximately 14.8% to approximately RMB134.8 million as compared with that in the corresponding period in 2019, which was mainly due to the increase in staff costs and general expenses for enhancement of business and employee health management; and (iv) the turning of an exchange gain of approximately RMB14.2 million for the six months ended 30 June 2019 to an exchange loss of approximately RMB15.4 million for the period under review, all partially offset by (i) the substantial reduction in impairment loss under ECL model, net of reversal by approximately 96.8% to approximately RMB3.4 million (six months ended 30 June 2019: RMB104.5 million), mainly due to the amount and aging of trade and other receivables over one year remaining stable during the period under review; (ii) the turning of share of losses from associates of approximately RMB5.4 million for the six months ended 30 June 2019 to share of profits from associates of approximately RMB2.1 million during the period under review; (iii) the reduction in finance costs by approximately 12.2% to approximately RMB135.5 million compared with that in the corresponding period in 2019, which was mainly due to the reduction in the interest rates used in the discounting of bank and commercial bills during the period under review; and (iv) the decrease in taxation by approximately 73.2% to approximately RMB8.5 million as compared to that in the corresponding period in 2019 as a result of the substantial reduction in taxable profit for the period under review.

Selling and Distribution Costs

Selling and distribution costs mainly represent the Group's salary and welfare expenses for employees involved in selling and distribution activities, 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 RMB76.2 million, or approximately 52.5%, from approximately RMB145.2 million for the six months ended 30 June 2019 to approximately RMB221.5 million for the period under review. The 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; and (ii) the increase in the costs incurred in bidding projects. With the decrease in turnover, the selling and distribution costs as a percentage of turnover increased from approximately 2.3% for the six months ended 30 June 2019 to approximately 4.4% for the period under review.

Administrative Expenses

Administrative expenses increased by approximately RMB17.4 million, or approximately 14.8%, from approximately RMB117.4 million for the six months ended 30 June 2019 to approximately RMB134.8 million for the period under review, mainly due to the increase in staff costs and general expenses for enhancement of business and employee heath management during the period under review. With the decrease in turnover, the administrative expenses as a percentage of turnover increased from approximately 1.9% for the six months ended 30 June 2019 to approximately 2.7% for the period under review.

Research and Development Costs

Research and development costs increased by approximately 6.9% from approximately RMB28.9 million for the six months ended 30 June 2019 to approximately RMB30.8 million for the period under review. This increase was mainly resulted from the increase in the Group's expenditures on research and development of new products and technology in relation to higher gross margin products during the period under review, as compared to those in the corresponding period in 2019.

Other (Losses) Gains, Net

Other (losses) gains, net were mainly composed of exchange gain (loss) and gain on disposal of property, plant and equipment. Other (losses) gains, net turned from net gains of approximately RMB14.3 million for the six months ended 30 June 2019 to net losses of approximately RMB13.9 million for the period under review, which was mainly caused by the turning of an exchange gain for the six months ended 30 June 2019 to an exchange loss for the period under review due to the depreciation of Renminbi (the "RMB") during the period under review.

Impairment Losses under ECL Model, Net of Reversal

Impairment losses under ECL model, net of reversal mainly represented the net impairment losses on trade and other receivables, which decreased by approximately RMB101.1 million, or approximately 96.8%, from approximately RMB104.5 million for the six months ended 30 June 2019 to approximately RMB3.4 million for the period under review. The decrease was mainly due to the decrease in impairment losses on trade receivables because of the amount and aging of trade and other receivables over one year remaining stable during the period under review and the write-back of a debt owed to the Group of RMB25 million as at 30 June 2020 which was included in other receivables, taking into consideration the collection of such debt by the Group from the debtor.

Finance Costs

Finance costs decreased by approximately 12.2% from approximately RMB154.3 million for the six months ended 30 June 2019 to approximately RMB135.5 million for the period under review, which was mainly attributable 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 period under review. Finance costs as a percentage of turnover increased from approximately 2.5% for the six months ended 30 June 2019 to approximately 2.7% for the period under review.

Taxation

The Group's taxation decreased by approximately RMB23.3 million, or approximately 73.2%, from approximately RMB31.8 million for the six months ended 30 June 2019 to approximately RMB8.5 million for the period under review. The decrease in taxation was due to the decrease in the taxable profits of the Group during the period under review. The effective tax rate for the period under review was approximately 29.2% (six months ended 30 June 2019: 21.2%). The increase in the effective tax rate was mainly due to the increase in the proportion of the losses generated form the subsidiaries of the Company overseas which did not have any assessable profits.

Financial Position and Liquidity

As at 30 June 2020, total assets of the Group amounted to approximately RMB15,207.7 million (31 December 2019: RMB15,579.5 million).

Non-current assets increased by approximately 1.5% from approximately RMB1,287.2 million as at 31 December 2019 to approximately RMB1,306.2 million as at 30 June 2020. The increase was due to the addition of property, plant and equipment and the increase in the deposits paid for the acquisition of property, plant and equipment, which was partially offset by the decrease in a loan advanced to an associate of the Company during the period under review.

Current assets decreased by approximately 2.7% from approximately RMB14,292.3 million as at 31 December 2019 to approximately RMB13,901.5 million as at 30 June 2020, which was mainly due to the decrease in bank balances, partially offset by the increase in inventories and trade and other receivables during the period under review.

Total bank borrowings increased by approximately 12.7% from approximately RMB3,252.8 million as at 31 December 2019 to approximately RMB3,664.8 million as at 30 June 2020. Of the Group's total bank borrowings as at 30 June 2020, approximately 97.5% of the short-term borrowings were made by the Group's subsidiaries in the PRC. These loans were not guaranteed by the Company.

Total equity was approximately RMB6,293.0 million as at 30 June 2020, which was approximately 0.2% lower than that of approximately RMB6,308.2 million as at 31 December 2019. The decrease was mainly due to the net effect of the profits generated and the payment of the final dividend for the year ended 31 December 2019 during the period under review.

The net-debt-to-equity ratio of the Group, defined as a percentage of net interest-bearing borrowings (bank borrowings less bank balances and cash, bank deposits with original maturity over three months and pledged bank deposits) of approximately negative RMB635.5 million over total equity of approximately RMB6,293.0 million as at 30 June 2020, dropped from approximately -30.1% as at 31 December 2019 to approximately -10.1%. As compared with the net-debt-to-equity ratio of -17.2% as at 30 June 2019, the net-debt-to-equity ratio of the Group as at 30 June 2020 also dropped. The deterioration in the net-debt-to-equity ratio as at 30 June 2020 as compared with that as at 31 December 2019 was mainly due to the decrease in the bank balances held by the Group as at 30 June 2020.

During the period under review, the Group's borrowings were mainly denominated in RMB and carried interest at a premium over the RMB benchmark loan interest rates for financial institutions set by the People's Bank of China. As at 30 June 2020, the majority of the Group's bank balances and cash were denominated in RMB. As the Group's revenue was mainly denominated in RMB and major expenses were denominated in either RMB or Hong Kong Dollars, the Group faced relatively low currency risk during the period under review.

During the period under review, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB107,000 (six months ended 30 June 2019: RMB57,000) for cash proceeds of approximately RMB195,000 (six months ended 30 June 2019: RMB138,000), resulting in a gain on disposal of approximately RMB88,000 (six months ended 30 June 2019: RMB81,000).

As at 30 June 2020, the Group has pledged certain of its buildings and machinery with carrying amounts of approximately RMB180.4 million and approximately RMB60.3 million respectively (31 December 2019: buildings with carrying values of approximately RMB162.0 million) to certain banks to secure credit facilities granted to the Group.

During the six months ended 30 June 2020 and 2019, no interest expense was capitalised.

During the six months ended 30 June 2020 and 2019, the Group did not employ any financial instruments for hedging purposes.

Contingent Liabilities

As at 30 June 2020, neither the Group nor the Company had any significant contingent liabilities.

Use of Net Proceeds

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

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$448.1 million. The amount of unutilised net proceeds from the Listing of approximately HK$51.5 million was brought forward from the year of 2019. The intended use and the actual use of the net proceeds from the Listing as at 30 June 2020 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 30 June 2020**
	HK$'million	*HK$'million*
Setting up of production facilities for aluminium alloy and double capacity conductors	115.0	115.0
Setting up of 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	101.4
Total	448.1	401.5

During the period under review, net proceeds from the Listing of approximately HK$4.9 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$46.6 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

The net proceeds from the Rights Issue under which the Company issued 2,039,433,000 of its ordinary shares 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, the completion of which took place on 22 October 2019, amounted to approximately HK$555.5 million (after deducting related expenses). The amount of unutilised net proceeds from the Rights Issue of approximately HK$361.8 million was brought forward from the year of 2019. The intended use and the actual use of the net proceeds from the Rights Issue, as well as the unutilised net proceeds therefrom as at 30 June 2020 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 30 June 2020**	**Unutilised net proceeds as at 30 June 2020**
	HK$'million	*HK$'million*	*HK$'million*
Expansion of the Group's production facilities for mid-rated voltage power cables	218.2	70.1	148.1
Upgrade and development of the Group's production facilities for flexible fire-proof cables	37.9	4.5	33.4
Upgrade and expansion of the Group's existing production facilities and management systems	46.9	37.5	9.4
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	254.6	300.9

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

Employees and Remuneration

As at 30 June 2020, the Group had a total of 3,376 employees. The total staff costs, net of the remuneration of the Directors, amounted to approximately RMB130.9 million (six months ended 30 June 2019: RMB135.0 million) for the period under review. The Group's remuneration policy is based on the position, duties and performance of individual employees. The remuneration of the Group's employees, including their salaries, overtime allowance, bonus and various subsidies, varies according to their positions. The performance appraisal cycle varies according to the positions of the Group's employees. The performance appraisal of the Group's senior management is conducted annually, and that of the department heads is conducted quarterly while that of the Group's remaining staff is conducted monthly. The performance appraisal is supervised by the Group's performance management committee.

The Board adopted a share award scheme on 9 September 2015 as an incentive to recognise the contributions made by the employees, executives, officers and directors of the Group, to retain them for the continuing operation and development of the Group and to attract suitable personnel for further development of the Group. No share of the Company was granted under the share award scheme during the period under review.

Property, Plant and Equipment

The Group's property, plant and equipment increased from approximately RMB882.9 million as at 31 December 2019 to approximately RMB913.5 million as at 30 June 2020, representing an increase of approximately 3.5%. This increase represented the net effect of the addition of machineries for the power cable production lines and the depreciation charged on property, plant and equipment during the period under review.

Outlook and Prospects

According to the "Government Work Report of the State Council for the Year 2020" (《2020年國務院政府工作報告》), the PRC government would place an emphasis on supporting the "Two New and One Major" construction initiative. Such initiative would principally involve seven major sectors, including the construction of 5G base stations, ultra-high voltage, intercity high speed railways and urban rail transit, charging stations for new energy automobiles, big data centers, artificial intelligence and industrial internet. The initiative would also involve a number of industry chains. Behind each sector of intercity high speed railways, urban rail transit, construction of 5G base stations and big data centers, there would be a market worth at least RMB1 trillion with enormous investment potential. This will bring a wave of benefits to the cable industry, and the demand for cables will experience another wave of growth. Therefore, the Group is still full of confidence towards the prospects of the wire and cable industry in China.

On 21 July 2020, Xi Jinping, the General Secretary of China, chaired and convened an entrepreneur forum in Beijing and delivered an important speech. He expressly indicated that the government would implement hardship relief and preferential policies for enterprises to stimulate the vitality of the major market players, so as to create a market-oriented, institutionalised and internationalised business environment, build close relationships between the government and the business sector that are free of corruption, give a strong emphasis and provide support to the development of individual industrial and commercial enterprises, etc. The speech further strengthened the confidence of enterprises on development and provided guidelines for enterprises on development.

The estimated investment of SGCC for the year 2020 amounted to RMB450 billion, and was revised to RMB460 billion in July 2020. However, since the actual investments made by SGCC did not exceed 40% of its planned investments during the first half of 2020, there is a possibility that SGCC would accelerate its progress of work in the second half of 2020, which is expected to boost the demand for cables.

Based on an analysis conducted on the overall economic situation in 2019 and China's national policies, the Group has finalised the overall direction of its operations. Confronted with various pressure and challenges in 2020, such as the impacts caused by COVID-19, the drastic fluctuation in the prices of raw and auxiliary materials and the uncertainties in the global economy, the Group has formulated its overall development principle of prudent progress to improve the quality and efficiency of its development. As for management, the Group continued to consolidate its management foundation and pushed forward intelligent manufacturing, green manufacturing and lean manufacturing, aiming to reduce its expenditure and consumption and implement highly efficient management; as for research and development, the Group further optimised its product mix and steadily improved its product quality, aiming to create more "quality" and "new" cables; as for production, in the first half of 2020, the Group set up four 35kV ultra high-speed production lines for medium voltage cross-linked cables. As at the date hereof, the Group has completed the installation of these production lines and is currently carrying out trial operation. With the gradual growth of the quantity of orders from its customers as the economy starts to recover, the Group is planning to import four additional ultra high-speed production lines for cross-linked cables. Meanwhile, for the purpose of being able to better participate in the "Two New and One Major" construction initiative, the Group is planning to acquire land for construction use, aiming to release its development potential by devoting greater efforts to technology advancement and production capacity improvement. While the performance of its sales in the first half of 2020 was affirmative under the harsh economic environment, the Group is clearly aware of certain problems in its operation:

1. In the first half of 2020, demand for the Group's products from its domestic and overseas markets shrank as a result of the outbreak of COVID-19. In particular for the Group's export business, as the logistics channels were blocked, the projects of counterparties were suspended, and a number of completed orders of the Group were backlogged and could not be delivered, there was considerable pressure on the Group's cash flow. Moreover, as it is expected that the Group will increase its future capital expenditures, it will consider and explore more financing options to provide sufficient resources for its future development.

2. In the first half of 2020, the production operation of the Group was generally suspended throughout February due to the outbreak of COVID-19. Nevertheless, the Group actively fulfiled its social responsibilities during the period under review. It did not lay off any employee during the outbreak of COVID-19, and paid remuneration in strict accordance with relevant laws and regulations. To support its operation in the then adverse business environment, the Group incurred substantially higher administrative costs, finance costs, selling costs and transportation costs, which resulted in a significant decrease in its net profit as compared with that in the corresponding period in the previous year.

3. At present, the biggest challenge facing the development of the Group is that the overall domestic and overseas economic situation is confronted with various risks and uncertainties. It is expected that the impacts on the global economy caused by the spread of COVID-19 across the world will not disappear in a short period of time. Furthermore, the prospects of the global economy are shadowed by increasingly intensified conflicts between China and the US. Against this background, the Group must accurately grasp the market situation for its development and steadily push forward its expansion in the international and domestic markets.

4. The Group will persistently devote its continuous efforts in research and development of high-end wire and cable products, high-end materials and high-end techniques, focus on the breakthrough of key and core technologies, strengthen the protection of self-owned intellectual property rights and accelerate the transformation and upgrade of the Group, so as to deliver high quality products, build a high-end brand image and enhance its competitiveness in the international market.

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

For the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the 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. However, the Company has not had a separate chairman and chief executive officer during the period under review. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired as all major decisions are made in consultation with the Board members and the senior management of the Company. The current arrangement will enable the Company to make and implement decisions promptly and efficiently. The Group nevertheless will review the structure from time to time in light of the prevailing circumstances.

Save as disclosed above, the Company has complied with all the applicable code provisions of the CG Code during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code on securities transactions by the 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 (the "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 period under review.

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 any relevant officers or employees during the period under review was noted by the Company.

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 interim financial statements of the Group for the period under review and this announcement.

During the period under review, 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.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.jiangnangroup.com). The interim report for the period under review 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, investors, business partners, customers and suppliers of the Group for their continued support and to thank the Board, and the management and staff of the Group for their dedication and contributions.

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

Hong Kong, 24 August 2020

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